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EDITOR'S NOTE

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No. 86-624-CFX
Status: GRANTED

Title: 47th Street Photo, Inc., Petitioner
v.
Coalition to Preserve the Integrity of American Trademarks, et al.

Docketed:
October 16, 1986

Court: United States Court of Appeals for the District of Columbia Circuit

Vide:
86-495
86-625

Counsel for petitioner: Lewin, Nathan

Counsel for respondent: Solicitor General, Steele, Robert W., Allen, William H.

| Entry | Date | Note | Proceedings and Orders |
|---|---|---|---|
| 1 | Oct 16 1986 | G | Petition for writ of certiorari filed. |
| 2 | Oct 20 1986 | | Brief of respondent United States in opposition filed. VIDED. |
| 3 | Nov 19 1986 | | DISTRIBUTED. December 5, 1986 |
| 4 | Nov 19 1986 | | Brief amicus curiae of American Free Trade Assn. filed. VIDED. |
| 5 | Nov 19 1986 | | Brief of respondents Coal. to Preserve, etc., et al. in opposition filed. VIDED. |
| 6 | Nov 27 1986 | X | Reply brief of petitioner 47th Street Photo filed. |
| 7 | Dec 8 1986 | | Petition GRANTED. The case is consolidated with 86-495 and 86-625, and a total of one hour is allotted for oral argument. |
| | | | ****************************************************** |
| 9 | Jan 8 1987 | | Order extending time to file brief of petitioner on the merits until February 21, 1987. |
| 10 | Feb 20 1987 | | Brief amicus curiae of Natl. Assn. of Showroom Merchandisers filed. VIDED. |
| 11 | Feb 20 1987 | | Brief amicus curiae of Progress Trading Co., Inc. filed. VIDED. |
| 12 | Feb 20 1987 | | Brief amicus curiae of National Mass Retailing Institute filed. VIDED. |
| 13 | Feb 20 1987 | | Brief amicus curiae filed. VIDED. |
| 14 | Feb 20 1987 | | Brief of petitioner K mart Corporation filed. VIDED. |
| 15 | Feb 20 1987 | | Brief of petitioner 47th Street Photo filed. VIDED. |
| 16 | Feb 21 1987 | | Brief amicus curiae of Darby Dental Supply, et al. filed. VIDED. |
| 17 | Feb 20 1987 | | Brief amicus curiae of Washington filed. VIDED. |
| 18 | Feb 20 1987 | | Brief amicus curiae of Consumers Union of U.S. filed. VIDED. |
| 19 | Feb 20 1987 | | Brief amicus curiae of American Free Trade Assn. filed. VIDED. |
| 20 | Feb 20 1987 | | Brief of petitioners United States, et al. filed. VIDED. |
| 21 | Mar 7 1987 | G | Motion of the Solicitor General for divided argument filed. |
| 22 | Mar 6 1987 | | Application of respondents for leave to file a brief on the merits in excess of the page limitation filed |
| 23 | Mar 6 1987 | | (A-658), and order granting same by The Chief Justice on March 9, 1987. The brief may not exceed 60 pages. |
| 25 | Mar 12 1987 | | Order extending time to file brief of respondent on the merits until April 22, 1987. |
| 26 | Mar 23 1987 | | Motion of the Solicitor General for divided argument |

No. 86-624-CFX

| Entry | Date | Note | Proceedings and Orders |
|---|---|---|---|
| | | | GRANTED. |
| 28 | Mar 31 1987 | | Order extending time to file brief of responcent on the merits until May 7, 1987. |
| 29 | May 7 1987 | | Brief of respondent United States filed. |
| 30 | May 7 1987 | | Lodgings received. (25 copies). |
| 31 | May 7 1987 | | Brief amicus curiae of United States Trademark Assn. filed. VIDED. |
| 32 | May 7 1987 | | Brief amicus curiae of Duracell, Inc. filed. VIDED. |
| 33 | May 7 1987 | | Brief amicus curiae of American Cyanamid Co., et al. filed. VIDED. |
| 34 | May 7 1987 | | Brief amicus curiae of Lever Brothers filed. VIDED. |
| 35 | May 7 1987 | | Brief amicus curiae of Cetus Corporation filed. VIDED. |
| 36 | May 7 1987 | | Brief amicus curiae of American Intellectual Property La. filed. VIDED. |
| 37 | May 7 1987 | | Brief of respondents CArtier, Inc., et al. filed. VIDED. |
| 38 | May 7 1987 | | Brief amicus curiae of Yamaha International Corp., et al. filed. VIDED. |
| 39 | May 7 1987 | | Brief amicus curiae of Motor Vehicle Mfgrs. Assn. of the U.S. filed. VIDED. |
| 40 | Jul 2 1987 | | CIRCULATED. |
| 41 | Jul 20 1987 | | SET FOR ARGUMENT. Tuesday, October 6, 1987. This case is consolidated with Nos. 86-495 & 625. (4th case)(1 hr) |
| 42 | Aug 12 1987 | D | Motion of Yamaha International Corporation, et al. for leave to participate in oral argument as amici curiae, for divided argument and for additional time for oral argument filed. |
| 43 | Sep 21 1987 | | Motion of Yamaha International Corporation, et al. for leave to participate in oral argument as amici curiae, for divided argument and for additional time for oral argument DENIED. |
| 44 | Sep 22 1987 | X | Reply brief of petitioner K Mart Corporation filed. VIDED. |
| 45 | Sep 22 1987 | X | Reply brief of petitioners United States, et al. filed. VIDED. |
| 46 | Sep 22 1987 | X | Reply brief of petitioner 47th Street Photo filed. VIDED. |
| 47 | Oct 6 1987 | | ARGUED. |

# PETITION FOR WRIT OF CERTIORARI

86-624

No. 86-____



IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

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47th STREET PHOTO, INC.,
*Petitioner*,

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS; CARTIER, INC.; and CHARLES OF THE RITZ GROUP LTD.

and

UNITED STATES OF AMERICA; JAMES A. BAKER III; and WILLIAM VON RAAB

and

K MART CORPORATION,
*Respondents*.

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**PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT**

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38 pp

## QUESTIONS PRESENTED

1. Whether the Court of International Trade has exclusive jurisdiction over actions against the Customs Service challenging regulations that interpret a statutory prohibition against the importation of trademarked merchandise.

2. Whether the Customs Service's 1972 published regulations interpreting Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, consistently with Customs' interpretation of that Act since the mid-1930's, is a permissible administrative construction of the statute.

## PARTIES TO THE PROCEEDING

47th Street Photo, Inc. has no parent, subsidiary or affiliated companies. The parties before the Court of Appeals were Coalition to Preserve the Integrity of American Trademarks, Plaintiff; Cartier, Inc., Plaintiff; Charles of Ritz Group, Ltd. (a subsidiary of Squibb Corporation), Plaintiff; United States of America, Defendant; James A. Baker III, Secretary of the Treasury, Defendant; William von Raab, Commissioner of Customs, Defendant; 47th Street Photo, Inc., Defendant-Intervenor; K mart Corporation, Defendant-Intervenor.

## TABLE OF CONTENTS

## TABLE OF AUTHORITIES



IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

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No. 86——

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47th STREET PHOTO, INC.,
*Petitioner*,

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS; CARTIER, INC.; and CHARLES OF THE RITZ GROUP LTD.

and

UNITED STATES OF AMERICA; JAMES A. BAKER III; and WILLIAM VON RAAB

and

K MART CORPORATION,
*Respondents*.

---

**PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT**

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## OPINIONS BELOW

The opinion of the Court of Appeals is reported at 790 F.2d 903. The opinion of the District Court is reported at 598 F. Supp. 844.[1]

[1] The lower-court opinions and the order denying rehearing and rehearing *en banc* are reproduced as Appendices to the Petition for a Writ of Certiorari filed by K mart Corporation, No. 86-495.

## JURISDICTION

The decision of the Court of Appeals was issued on May 6, 1986. On July 18, 1986, the Court of Appeals denied a timely Petition for Rehearing and Suggestion for Rehearing *En Banc*. The jurisdiction of this Court rests on 28 U.S.C. § 1254.

## STATUTES AND REGULATIONS INVOLVED

The relevant statutes and regulations are reproduced as Appendix A, pp. 1a-3a, *infra*.

## STATEMENT

### *Introduction*

Foreign manufacturers of consumer goods such as cameras and watches frequently seek to sell their products at significantly higher prices in the United States than in foreign markets. The merchandise is authentic and identical in both American and foreign markets, and it bears the same authorized trademark. But by establishing a subsidiary American corporation, assigning to it the U.S. trademark, and granting it exclusive distribution rights, the foreign manufacturer attempts to limit the flow of his products to the United States and thereby to maintain higher prices here than in Europe or the Far East.

For approximately fifty years, the Customs Service has permitted the importation into the United States of authentic trademarked goods manufactured abroad if the American trademark owner is a subsidiary or parent of the foreign manufacturer of the goods. This practice of "parallel importation" or "gray market importation" has benefited American consumers by bringing prices for such goods in line with those charged in foreign markets.

Three federal-court lawsuits against the Customs Service were initiated in early 1984 by parties interested in prohibiting parallel or gray-market imports. The first



was brought in January 1984 in the Court of International Trade by the Vivitar Corporation. The second was this case, initiated in the District Court for the District of Columbia in February 1984 principally by an *ad hoc* trade association consisting of American subsidiaries or parents of companies manufacturing trademarked goods abroad. The third lawsuit was started in the Eastern District of New York in March 1984 by Olympus Corporation, an American subsidiary of a Japanese manufacturer of photographic and optical products. The appellate rulings in the three cases are in conflict on issues of jurisdiction and on the common substantive question presented.

### 1. *Rulings on Jurisdiction*

The government moved to dismiss the case brought by Vivitar in the Court of International Trade on the ground that that Court lacked jurisdiction. The parties to the *Vivitar* case agreed that if the Court of International Trade had jurisdiction over the claim, its jurisdiction would be exclusive. On April 4, 1984, the Court of International Trade denied the government's motion to dismiss. *Vivitar Corp. v. United States*, 585 F. Supp. 1419 (CIT 1984). It ruled that the claim under Section 526 of the Tariff Act raised "international trade" rather than "trademark" issues, and that the Court of International Trade had jurisdiction under the residual jurisdictional grant of 28 U.S.C. § 1581(i)(4). The Court of International Trade also held that it had jurisdiction under 28 U.S.C. § 1581(i)(3).

The Court of Appeals for the Federal Circuit sustained the jurisdictional ruling. *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985). It agreed that jurisdiction rested alternatively on 28 U.S.C. § 1581(i)(3) or on § 1581(i)(4). The jurisdictional issue was not raised in Vivitar's petition for a writ of certiorari. *See* Petition for Certiorari, *Vivitar Corp. v. United States*, No. 85-411, *cert. denied*, 106 S.Ct. 791 (1986).

Two district courts subsequently disagreed with the jurisdictional ruling of the Court of International Trade. *COPIAT v. United States*, 598 F. Supp. 844, 847 (D.D.C. 1984); *Olympus Corp. v. United States*, No. CV-84-0920, Order of November 15, 1984 (reproduced as Appendix B, pp. 4a-13a, *infra*). Denying motions to dismiss filed by 47th Street Photo, Inc., each district court ruled that the plaintiff's claims were not included in 28 U.S.C. § 1581, were within the general federal-question jurisdiction of the district courts, and were covered by 28 U.S.C. § 1338(a), which defines district-court jurisdiction over federal trademark questions. The District of Columbia and Second Circuits affirmed the jurisdictional rulings of the district courts. *COPIAT v. United States*, 790 F.2d 903, 905-907 (D.C. Cir. 1986); *Olympus Corp. v. United States*, 792 F.2d 315, 317-319 (2d Cir. 1986).

### 2. *Rulings on the Merits*

In all three trial courts, the plaintiffs contended that the Customs Service had issued regulations in 1972 that violated Section 526 of the Tariff Act of 1922, as re-enacted in the Tariff Act of 1930. The challenged Customs Service regulation permits the importation of authentic trademarked merchandise if the foreign and domestic trademark owners "are parent and subsidiary companies or are otherwise subject to common ownership or control." The plaintiffs in the three cases claimed that Section 526, if read literally, gives an American corporation that owns American trademark rights the unlimited authority to prohibit the importation of any foreign-manufactured product bearing the registered trademark, even if the trademark has been placed on the merchandise by the parent or subsidiary of the American trademark owner.

All three trial courts rejected the challenge to the Customs Service regulations. Judges Restani (Court of International Trade), Johnson (District of Columbia), and



Sifton (Eastern District of New York) ruled that the 1922 Congress intended, in the language of the Court of International Trade, "to protect American businesses that purchase foreign trademarks from imports that violate the rights the American businesses purchase." *Vivitar Corp. v. United States*, 593 F. Supp. 420, 435 (CIT 1984). Each construed the 1922 law in light of its language, the circumstances that gave rise to its enactment, its legislative history, subsequent Customs policy, and Congressional ratification. They sustained the Customs regulation as a permissible interpretation of Congressional policy.

The appellate courts arrived at differing conclusions. The Court of Appeals for the Federal Circuit held that the regulations were "a reasonable exercise of administratively initiated enforcement" (761 F.2d at 1571), but went on to suggest that even if Customs permits merchandise to enter the United States, private damage suits might be brought to enforce claimed trademark rights. Judge Davis concurred only in the result, noting that the discussion of private trademark rights was inappropriate since such potential actions were concededly beyond the jurisdiction of the Court of International Trade and the Court of Appeals for the Federal Circuit. 761 F.2d at 1572. Vivitar petitioned to this Court for a writ of certiorari, raising only substantive issues and not the jurisdictional question. The petition was denied. 106 S.Ct. 791.

The second federal appellate decision was the ruling of the court of appeals in this case. The court below held that the challenged Customs regulations conflict with Section 526 of the Tariff Act and are, therefore, unlawful. The opinion by Judge Silberman explicitly stated that the court rejected the contrary conclusion of the Court of Appeals for the Federal Circuit. 790 F.2d at 918.

The third federal appellate ruling was issued on June 9, 1986, by the Court of Appeals for the Second Circuit

in *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986). By a 2-to-1 vote, the Second Circuit disagreed with the D.C. Circuit's ruling in the present case. 792 F.2d 321, n.1. The Second Circuit held that Congress' repeated knowing acquiescence in the "consistent policy" followed by Customs requires judicial acceptance of that policy under decisions of this Court such as *Haig v. Agee*, 453 U.S. 280, 297-298 (1981), and *Red Lion Broadcasting Co. v. F.C.C.*, 395 U.S. 367, 381 (1969). We understand that the plaintiff in the *Olympus* case intends to seek review in this Court by petition for a writ of certiorari.

## REASONS FOR GRANTING THE WRIT

The decision of the Court of Appeals presents an unusual *double* conflict with rulings of other federal courts of appeals.

1. *The Jurisdictional Issue.*—The Court of Appeals for the Federal Circuit held in the *Vivitar* case that the Court of International Trade had *exclusive* jurisdiction over a claim such as the one made in this case by COPIAT. If that ruling is correct, the D.C. and Second Circuits had no jurisdiction to decide the *COPIAT* and *Olympus* cases. But in this case the D.C. Circuit explicitly disagreed with the Federal Circuit and assumed jurisdiction over the very same issue of law that the Federal Circuit had previously decided.

This jurisdictional issue has great practical significance and should be resolved by this Court. If the decision of the Federal Circuit is sustained, many federal judicial resources will be conserved. Issues of the kind presented in this litigation will be channeled to only one federal trial court and to a specialized federal appellate court. If, on the other hand, the D.C. and Second Circuit determinations are permitted to stand, plaintiffs in such cases will be encouraged to shop for favorable forums among all the federal judicial districts and to bring repetitive



litigations on the same legal issue until they find a favorably inclined federal court.

The language of the jurisdictional provision, 28 U.S.C. § 1581, is broad enough to encompass claims of the kind alleged here. Whether Congress intended to limit decision of such claims to the Court of International Trade is an issue of legislative intent that has split the intermediate federal courts and that can be authoritatively resolved only by this Court. There is no benefit in delaying resolution of this significant jurisdictional question.

The present petitioner, 47th Street Photo, Inc., is the *only* party in the three lawsuits that has argued for the exclusive jurisdiction of the Court of International Trade. We raise that question in the present petition for decision by this Court.

2. *The Substantive Issue.*—The court below acknowledged that its decision on the merits—*i.e.*, that the challenged Customs regulations are invalid—conflicts squarely with the ruling of the Federal Circuit in the *Vivitar* case. The decision of the court below also conflicts with the ruling—issued approximately one month later—of the Court of Appeals for the Second Circuit in the *Olympus* case.

As a result, the Customs Service now must confront squarely conflicting rulings. Two Circuits have approved the 1972 regulations interpreting Section 526 of the Tariff Act and one Circuit has held that those regulations are unlawful. The administration of Section 526 in the economically important area of parallel importation is, therefore, in disarray. The responsible government agency faces conflicting rulings on the underlying issue of law. Businesses that must make investments of hundreds of millions of dollars in reliance on the applicable law are unable to plan their marketing programs. Consumers can no longer depend on the practice of parallel importation to keep American prices on foreign-manu-

factured goods near the level at which identical goods are offered in foreign markets.

The Court below acknowledged the force of policy arguments we had made. Specifically it noted that (790 F.2d at 917-918):

> [1] . . . Section 526, as we interpret it, would deprive American consumers of the benefit of imports at prices lower than those maintained by foreign producers through exclusive distribution by their American subsidiaries. . . .
>
> [2] . . . [O]ther nations, particularly our trading partners and competitors, do not permit American producers to maintain prices in their countries in this fashion . . . Section 526 in today's international market constitutes a sort of economic unilateral disarmament. . . .
>
> [3] . . . [E]conomic and trading conditions have changed a good deal since 1922, and it may now be possible for foreign producers with an exclusive distributorship in the United States to maintain artificially high prices on desirable imports in a manner quite unforeseen sixty years ago.

The Court below conceded that each of these appraisals may be accurate. It insisted, however, that the remedy lies with Congress. But Congress has relied for many decades on the existing Customs practice and, therefore, has had no reason to enact amendatory legislation. The consistent Customs practice, which has received tacit Congressional approval or express acquiescence for many years and has been part of the *Code of Federal Regulations* in its present form since 1972 (prior to which time the regulations had been published for public comment), implements sound economic policies and should not be set aside by judicial decree.



## CONCLUSION

For the foregoing reasons, a writ of certiorari should issue to review (1) the issue of the exclusive jurisdiction of the Court of International Trade and (2) the substantive issue of the validity of the regulations of the United States Customs Service.

Respectfully submitted,

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October 16, 1986

# APPENDICES

## APPENDIX A

## STATUTES & REGULATIONS INVOLVED

Section 201 of the Customs Courts Act of 1980, 94 Stat. 1728, 28 U.S.C. § 1581 provides, in pertinent part:

> (a) The Court of International Trade shall have exclusive jurisdiction of any civil action commenced to contest the denial of a protest, in whole or in part, under section 515 of the Tariff Act of 1930.
>
> * * * *
>
> (h) The Court of International Trade shall have exclusive jurisdiction of any civil action commenced to review, prior to the importation of the goods involved, a ruling issued by the Secretary of the Treasury, or a refusal to issue or change such a ruling, relating to classification, valuation, rate of duty, marking, restricted merchandise, entry requirements, drawbacks, vessel repairs, or similar matters, but only if the party commencing the civil action demonstrates to the court that he would be irreparably harmed unless given an opportunity to obtain judicial review prior to such importation.
>
> (i) In addition to the jurisdiction conferred upon the Court of International Trade by subsections (a)-(h) of this section and subject to the exception set forth in subsection (j) of this section, the Court of International Trade shall have exclusive jurisdiction of any civil action commenced against the United States, its agencies, or its officers, that arises out of any law of the United States providing for—
>
> (1) revenue from imports or tonnage;
>
> (2) tariffs, duties, fees, or other taxes on the importation of merchandise for reasons other than the raising of revenue;

(3) embargoes or other quantitative restrictions on the importation of merchandise for reasons other than the protection of the public health or safety; or

(4) administration and enforcement with respect to the matters referred to in paragraphs (1)-(3) of this subsection and subsections (a)-(h) of this section.

Section 526(a) of the Tariff Act of 1930, 46 Stat. 741, as amended by the Customs Procedural and Simplification Act of 1978, 92 Stat. 888, 19 U.S.C. § 1526(a) provides:

Importation Prohibited.

(a) Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of sections 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15, unless written consent of the owner of such trademark is produced at the time of making entry.

Section 133.21 of Title 19 of the Code of Federal Regulations published on October 3, 1972, 37 Fed. Reg. 20678, provides in relevant part:

§ 133.21 Restrictions on importation of articles bearing recorded trademarks and trade names.

(a) *Copying or simulating marks or names.* Articles of foreign or domestic manufacture bearing a mark or name copying or simulating a recorded trademark or trade name shall be denied entry and are subject to forfeiture as prohibited importations. A "copying or simulating" mark or name is an actual counterfeit of the recorded mark or name or is one which so resembles it as to be likely to cause the public to associate the copying or simulating mark with the recorded mark or name.



(b) *Identical trademark.* Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.

(c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (b) of this section to not apply to imported articles when:

(1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;

(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§ 133.2(d) and 133.12(d));

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner; . . .

## APPENDIX B

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

CV-84-0920

OLYMPUS CORPORATION,
*Plaintiff*,

- against -

THE UNITED STATES OF AMERICA,
DONALD T. REGAN and WILLIAM VON RAAB,
*Defendants*.

(K-MART CORPORATION and 47th STREET PHOTO,
*Intervenors*.)

## MEMORANDUM AND ORDER

SIFTON, District Judge.

Plaintiff in this action seeks declaratory and injunctive relief against the enforcement of 19 C.F.R. § 133.21, which states that certain restrictions upon the importation of trademarked goods do not apply to imported goods when, *inter alia*, "the foreign and domestic trademark . . . owners are parent and subsidiary companies or are otherwise subject to common ownership and control." [1]

[1] 19 C.F.R. § 133.21 reads in relevant part:

"(b) *Identical trademark.* Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the Uinted States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.

"(c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:

"(1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;

"(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§ 133.2 (d) and 133.12(d));

"(3) The articles of foreign manufacturer bear a recorded trademark or trade name applied under authorization of the U.S. owner."



The matter is before the Court on motions by defendant United States of America and intervenors 47th Street Photo and K-Mart Corporation for dismissal for lack of subject matter jurisdiction, or, alternatively, for a stay pending administrative review or resolution of two pending related cases. In addition, K-Mart has moved for a transfer of venue, pursuant to 28 U.S.C. § 1404(a), and plaintiff has moved for summary judgment. At oral argument on July 25, 1984, I indicated that I would first consider whether the action falls within the jurisdiction of the Court of International Trade and, if necessary, set a return date for the balance of defendant's jurisdictional arguments as well as with respect to the merits of plaintiff's claim.

It is essentially undisputed that plaintiff is the exclusive United States distributor of Olympus-brand optical products, including photographic products and accessories such as cameras, lenses, flash units and filters, all of which are manufactured in Japan, and that it owns the rights in this country to the Olympus trademark for those products. Olympus is a subsidiary corporation of Olympus Optical Company Ltd. ("Olympus Optical"), a Japanese corporation which is the manufacturer of Olympus-

brand products, and the owner of the rights to the Olympus mark in Japan.

In April 1978, the United States Customs Service accepted the Olympus trademark for import protection, pursuant to 15 U.S.C. § 1124 and 19 U.S.C. § 1526. However, Customs specifically declined to prohibit importation into the United States by unrelated third parties of merchandise bearing the genuine Olympus trademark and manufactured by Olympus Optical. Olympus alleges in its complaint that 19 C.F.R. § 133.21(c), which permits the importation of what are colloquially referred to as "gray market goods"—goods produced by a foreign manufacturer and bearing that manufacturer's trademark which are purchased abroad and imported by persons other than the manufacturer's authorized distributor [2]—is ultra vires since the regulation is inconsistent with two statutes, 19 U.S.C. § 1124 and 15 U.S.C. § 1526, which together prohibit the importation into the United States of goods bearing a trademark identical or confusingly similar to a mark owned by a United States citizen or corporation which is registered with the United State Patent and Trademark Office and recorded with the United States Custom Service, without the authorization or consent of the American trademark proprietor.[3] Olympus, therefore, requests this Court enjoin

[2] *Parfums Stern Inc. v. United States Customs Service*, 575 F. Supp. 416, 418 (S.D.N.Y. 1983). *See also Osawa & Co. v. B&H Photo*, No. 83-6874, slip op. (S.D.N.Y. May 24, 1984).

[3] 19 U.S.C. § 1526(a) provides, in pertinent part, that it shall be unlawful to import into the United States merchandise of foreign origin which bears a trademark owned by a corporation created or organized within the United States if such trademark is registered in the U.S. Patent and Trademark Office by the American domiciliary-owner and a copy of the registration certificate is filed with the Secretary of the Treasury. 15 U.S.C. § 1124 provides that no article of imported merchandise which shall copy or simulate a trademark registered in the U.S. Patent and Trademark Office shall be admitted to United States entry if that trademark has been recorded with the Secretary of the Treasury.



the Customs Service from enforcing the provisions of 19 C.F.R. § 133.21(c) as to Olympus. The complaint predicates jurisdiction on 28 U.S.C. §§ 1331, 1338 and 2201, as well as upon the provisions of the Administrative Procedure Act, 5 U.S.C. §§ 701 *et seq.*

Because of the controversy surrounding the current Customs' regulations,[4] the Customs Service on May 21, 1984, published a notice soliciting economic data from the public concerning the importation of gray market goods. In addition, two actions seeking relief similar to that sought by Olympus are pending in other forums. First, in *Vivitar Corp. v. United States*, No. 84-1-0067 (CIT filed Feb. 6, 1984), plaintiff Vivitar seeks a writ of mandamus in the Court of International Trade to compel Customs to revise 19 C.F.R. § 133.21.[5] In addition, in *Coalition to Preserve the Integrity of American Trademarks v. United States*, No. 84-0390 (D.D.C. filed Feb. 6, 1984) ("COPIAT"), an association of foreign manufacturers seeks injunctive relief halting the administration of 19 C.F.R. § 133.21.

In support of their position that this Court lacks jurisdiction over challenges to the enforcement of 19 C.F.R. § 133.21, defendant and intervenors rely heavily on Judge Restani's opinion in *Vivitar v. United States*, 585 F. Supp. 1419 (C.I.T. 1984), which held that the court possessed exclusive jurisdiction at least over plaintiff trademark owner's claim under 19 U.S.C. § 1526. It is to that issue that this opinion is addressed.

Not all international trade disputes are within the Court of International Trade's jurisdiction. *Vivitar*,

[4] Two district judges of this circuit have recently expressed doubt as to the validity of 19 C.F.R. § 133.21. *See Osawa & Co. v. B&H Photo, supra; Bell and Howell: Mamiya Co. v. Masel Supply Co., supra.*

[5] While this motion was pending, the Court of International Trade denied Vivitar's claim on the merits. *See Vivitar v. United States*, No. 84-1-0067 (C.I.T. Aug. 20, 1984).

*supra*, 585 F. Supp. at 1423. However, that court has exclusive jurisdiction over certain specified actions arising out of import transactions and federal statutes affecting international trade. H. Rep. No. 96-1235, 96th Cong., 2d Sess. Ed. (1980), *reprinted in* U.S. Code Cong. & Admin. News 3730 (1980) ("House Report"). Such actions are enumerated in 28 U.S.C. § 1851(a)-(h) and include, *inter alia*, actions contesting the denial of a "protest,"[6] actions challenging administrative decisions classifying and valuing imports against which a party competes, actions challenging anti-dumping or countervailing duty determinations, reviews of trade adjustment assistance determinations, reviews of decisions regarding an import's country of origin, disputes concerning the release of confidential business information obtained by the International Trade Commission, reviews of decisions by Customs to deny, revoke and suspend the licenses of customshouse brokers, and under certain circumstances pre-importation rulings relating to classification, valuation, rate of duty, marking restricted merchandise, entry requirements, drawbacks, vessel repairs or "similar matters."

It is undisputed that the instant action does not fall within any of these categories.[7] Rather, defendant and

[6] Matters protestable, as set forth in 19 U.S.C. § 1514, include Customs' orders as to the appraised value of merchandise, the classification and rate and amount of duties chargeable, all charges or exactions within the jurisdiction of the Secretary of the Treasury, the exclusion of merchandise from entry or delivery under any provision of the Customs' laws, the liquidation or reliquidation of an entry, the refusal to pay a claim for drawback, the refusal to liquidate on entry. The exclusion of infringing goods from entry would presumable be protestable by an importer, *Osawa & Co., supra*, slip op. at 34, but protest procedures are not available to contest Customs' failure to exclude merchandise from entry. *Vivitar*, 585 F. Supp. at 1424.

[7] It is also not disputed that the regulation in question and the action taken by the agency does not fit within the narrow definition of a ruling set forth at 19 C.F.R. § 177.8 and referred to in subsection (h).



intervenors rely on 28 U.S.C. § 1581(i), a residual jurisdictional grant. Defendant and intervenors, citing *Vivitar, supra*, claim the instant action arises out of the administration and enforcement of matters referred to in section 1581(a), relating to protests, or section 1581 (i)(3), relating to "embargoes or other quantitative restrictions."

Defendant and intervenors correctly point out that subsection (i) is a "broad jurisdictional grant [intended] to eliminate confusion which currently exists as to the demarcation between the jurisdiction of the district courts and the Court of International Trade," H. Rep. at 47. Nevertheless, commentators have warned against literal interpretations of 1581(i) to encroach upon the jurisdiction of other courts. Cohen, The "Residual Jurisdiction" of the Court of International Trade Under the Customs Courts Act of 1980, 26 N.Y.L.Sch. L. Rev. 471, 502-03 (1981). Upon examination of these and related provisions, as well as their legislative history, I conclude that this action does not arise out of a law relating to the administration or enforcement of either of the subsections cited.

Preliminarily, I note that the exclusive exercise of jurisdiction over this action by the Court of International Trade will not necessarily further Congressional policy that international trade disputes be resolved by a court possessing expertise in that area, thereby ensuring uniform interpretation of customs laws and regulations. H. Rep. at 20. While Olympus does challenge a regulation promulgated by Customs and based in part on a statute found in Title 19, the pleadings and papers make clear that the action primarily involves trademark and antitrust issues, areas over which the Court of International Trade possesses no particular expertise. *See, e.g., Osawa & Co. v. B&H Photo*, No. 83-6874, slip op. (S.D. N.Y. May 24, 1984); *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 548 F. Supp. 1063, 1079 (E.D.N.Y.

1982), *rev'd on other grounds*, 719 F.2d 42 (2d Cir. 1983). The point is, perhaps, that plaintiff may, on defendants' theory, challenge Customs gray market trademark or copyright-related regulations only in the Court of International Trade, while at the same time suing a gray market importer for infringement in the district court.[8]

That district courts have exercised jurisdiction over actions similar to the instant case is, accordingly, not surprising. For example, in *Croton Watch Co. v. Laughlin*, 208 F.2d 93 (2d Cir. 1953), the Court of Appeals concluded that the district court has jurisdiction over an action for injunctive relief restraining Customs from excluding the entry of plaintiff's goods under 15 U.S.C. § 1124 and 19 U.S.C. § 1526 and alleging that Customs had acted without statutory authority in prohibiting such entry.[9] The court held that 15 U.S.C. § 1124 was "not a part of the Customs laws" for purposes of determining the Customs Court's jurisdiction. *J.C. Penney Co. v. United States Treasury Dep't*, 439 F.2d 63, 67 (2d Cir.), *cert. denied*, 404 U.S. 869 (1971). *See also RCW Supervisor, Inc. v. Cuban Tobacco Co.*, 220 F. Supp. 453 (S.D. N.Y. 1963);[10] *Muebles & Immuebles v. Le Blanc*, 216 F. Supp. 384 (E.D. La. 1963).[11] While these actions pre-

[8] While plaintiff Olympus has not chosen to do so, challenges to Customs' actions predicated on 15 U.S.C. § 1124 and 19 U.S.C. § 1526 typically name the alleged infringing importers as defendants as well. *See, e.g., Parfums Stern Inc., supra.*

[9] The court cited *Fred Gretsch Mfg. Co. v. Schoening*, 238 F.2d 780 (2d Cir.), which held that a Customs' collector may be enjoined if his refusal of entry is unauthorized by statute.

[10] In *Cuban v. Tobacco, supra*, a district court exercised jurisdiction over an action seeking, *inter alia*, to enjoin the Customs' collector from enforcing a directive giving notice of a competitor's recordation of its trademark under 15 U.S.C. § 1124 and 19 U.S.C. § 1526.

[11] In *Mueble & Immuebles, supra*, plaintiff sought, *inter alia*, an injunction against a Customs' collector prohibiting the entry of



date the passage of the Court of International Trade's current jurisdictional grant, one would expect a clearer indication from Congress at the time of enactment of the current statute, had it intended such actions to be brought in that court in the future.

Moreover, I note that after the passage of the Customs Court Act of 1980, Publ L. 96-417, 94 Stat. 1730 (1980), one district court has held it had jurisdiction in *Parfums Stern v. United States Customs Service*, 575 F. Supp. 416 (S.D. Fla. 1983), a suit seeking, *inter alia*, relief under 15 U.S.C. § 1124 and 19 U.S.C. § 1526 against Customs for refusing to bar the importation of gray market goods. Further, in *Montres Roles v. Snyder*, 718 F.2d 524 (2d Cir. 1983), the Court of Appeals ruled that an action by a trademark owner seeking an injunction requriing Customs to declare an importer's goods as trademark counterfeits, pursuant to 19 U.S.C. § 1526e, rather than merely infringing could be heard in the district court. The court reasoned that the Customs' decision refusing to deny entry was a "final determination under [28 U.S.C.] § 1331 as an action arising under [19 U.S.C.] § 1526e," and, as such, "the district court clearly had jurisdiction." *Id.* at 529.

infringing goods. Plaintiff contended that 19 C.F.R. § 11.17, a regulation permitting entry of infringing merchandise after the infringing mark has been removed or obliterated was *ultra vires* as inconsistent with 15 U.S.C. § 1124.

[12] Section 1526(e), added in 1978, Publ L. No. 95-410, 92 Stat. 888, 903-04, states in pertinent part:

> "Any such merchandise [manufactured abroad] bearing a counterfeit mark within the meaning of section 1127 of Title 15) imported into the United States in violation of the provisions of section 1124 of Title 15, shall be seized and, in the absence of the written consent of the trademark owner, forfeited for violations of the customs laws. Upon seizure of such merchandise, the Secretary [of the Treasury] shall notify the

Turning to the specific provisions relied upon by Judge Restani and cited by defendant and intervenors as a basis for a finding of exclusive jurisdiction in the Court of International Trade, I conclude that an action does not arise out of the administration and enforcement of matters referred to in subsection (a), namely, protests, merely because the action tangentially relates to the protest procedure.

Secondly, it cannot be said that this action arises out of the administration and enforcement of matters referred to in subsection (i)(3), namely, "embargoes or other quantitative restrictions." The exclusion of infringement articles is not predicated upon international trade policy, but rather reinforces domestic prohibitions on such infringement. *Cf. Cohen, supra* at 502. Thus, for example, actions challenging Customs' failure to exclude articles allegedly infringing on owner's copyrights have repeatedly been held not to fall within subsection 1581 (i)(4), since the statutory prohibition on such importation, 17 U.S.C. §§ 601-603, as well as the parallel Customs' regulation, 19 C.F.R. § 133.31-53, is "not an embargo or other quantitative restriction" within the meaning of 1581(i)(3). *Bally Midway Mfg. Co. v. Regan*, 565 F. Supp. 1045 (C.I.T. 1983); *see also KIDCO v. United States*, 4 C.I.T. 103 (1982). *Cf. Stonehill Communications v. Martuge*, 512 F. Supp. 349 (S.D.N.Y. 1981).

Accordingly, because I conclude that the Court of International Trade does not possess exclusive jurisdiction over this action, the balance of defendant's and intervenors' procedural contentions, as well as plaintiff's sum-

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owner of the trademark, and shall, after forfeiture, obliterate the trademark where feasible and dispose of the goods seized."

*Id., see also* 19 C.F.R. § 133.23a(b), (c). While "merely infringing" goods may be imported into the country if the infringing mark is removed, this subsection treats counterfeit goods more severely: absent written consent of the trademark owner, such goods must be seized and forfeited. *Montres Roles, supra.*



mary judgment motion will be heard on December 11, 1984, at 4:30 p.m. Papers in opposition to plaintiff's motion shall be filed on or before December 5, 1984. Reply papers, if any, shall be filed on or before December 7, 1984, at 12:00 noon.

The clerk is directed to mail a copy of the within to all parties.

SO ORDERED.

Dated: Brooklyn, New York
November 15, 1984

/s/ Charles P. Sifton
United States District Judge

# OPPOSITION BRIEF

(7) (2)

Nos. 86-495 and 86-624



# In the Supreme Court of the United States

OCTOBER TERM, 1986

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K MART CORPORATION, PETITIONER

*v.*

CARTIER, INC., ET AL.

---

47TH STREET PHOTO, INC., PETITIONER

*v.*

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.

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*ON PETITIONS FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT*

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**MEMORANDUM FOR THE FEDERAL RESPONDENTS**

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CHARLES FRIED
*Solicitor General*
*Department of Justice*
*Washington, D.C. 20530*
*(202) 633-2217*

3 pp

# In the Supreme Court of the United States

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K MART CORPORATION, PETITIONER

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---

*ON PETITIONS FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT*

---

**MEMORANDUM FOR THE FEDERAL RESPONDENTS**

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Petitioners contend that the court of appeals erred in holding that a Customs Service regulation, 19 C.F.R. 133.21(c), which permits parallel importation of U.S. trademarked goods under certain circumstances, is inconsistent with Section 526 of the Tariff Act of 1930, 19 U.S.C. 1526. Petitioner 47th Street Photo, Inc. additionally contends that the Court of International Trade has exclusive jurisdiction over actions involving the Customs Service regulation.

The federal government has also filed a petition for a writ of certiorari in this case. *United States* v. *Coalition to Preserve the Integrity of American Trademarks*, petition for cert. pending, No. 86-625 (filed Oct. 16, 1986).[1] Our

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[1] The government challenges the court of appeals' holding that the Customs Service regulation is unlawful but does not contest the court's jurisdictional ruling.

position may not be identical to that of the private petitioners on the substantive question and differs from that of 47th Street Photo, Inc. on the jurisdictional question. However, we fully agree that the case merits this Court's review. Furthermore, we believe that the private petitioners—commercial enterprises that have placed substantial financial reliance on the Customs Service regulation—can provide this Court with a useful perspective on the questions presented.

It is therefore respectfully submitted that the petitions for a writ of certiorari should be granted, together with the government's petition in No. 86-625, and that the cases should be consolidated for this Court's review.

CHARLES FRIED
*Solicitor General*

OCTOBER 1986

U.S. GOVERNMENT PRINTING OFFICE: 1986—181-483/40042

# OPPOSITION
# BRIEF

(3) (3) (2)

Nos. 86-495, 86-624 and 86-625



IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

UNITED STATES OF AMERICA, *et al.*, K MART CORPORATION and 47th STREET PHOTO,
*Petitioners*,

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, CARTIER, INC., and CHARLES OF THE RITZ GROUP, LTD.,
*Respondents*.

**On Petitions for Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

## BRIEF FOR RESPONDENTS ON PETITIONS FOR WRITS OF CERTIORARI

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November 19, 1986

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26pp

## QUESTIONS PRESENTED *

1. Whether a United States district court, whose jurisdiction of trademark cases rests on 28 U.S.C. § 1338(a) and Section 39 of the Lanham Trademark Act, has jurisdiction of an action arising under Section 526 of the Tariff Act of 1930 and Section 42 of the Lanham Act, each of which forbids the importation of goods bearing certain trademarks, or whether exclusive jurisdiction lies in the Court of International Trade under 28 U.S.C. § 1581.

2. Whether regulations of the Customs Service properly interpret Section 526 of the Tariff Act of 1930, which without relevant qualification makes unlawful the importation of goods of foreign manufacture bearing a trademark owned by a corporation created within the United States (without the trademark owner's consent), when those regulations make the lawfulness of the importation turn on the relationship of the corporation that owns the United States trademark to the owner of the identical trademark affixed abroad.

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* The respondent Cartier, Inc., is a wholly-owned subsidiary of Cartier International, Inc., which is a wholly-owned subsidiary of Cartier International B.V., a Dutch corporation. Cartier, Inc., does not have any non-wholly owned subsidiaries or any affiliates, except foreign affiliates. The parent company of the respondent Charles of the Ritz Group, Ltd., is Squibb Corporation, a Delaware corporation. Charles of the Ritz Group, Ltd., does not have any subsidiaries or affiliates, except foreign affiliates, that are not wholly owned by it or by Squibb Corporation. The Solicitor General published in the petition in No. 86-625 a list of the members of the respondent Coalition to Preserve the Integrity of American Trademarks based on a list in the complaint in this case. A more nearly current list of COPIAT members is contained in the Appendix.

## TABLE OF CONTENTS

## TABLE OF AUTHORITIES





## TABLE OF AUTHORITIES—Continued

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

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Nos. 86-495, 86-624 and 86-625

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UNITED STATES OF AMERICA, *et al.*, K MART CORPORATION and 47th STREET PHOTO,
*Petitioners,*

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, CARTIER, INC., and CHARLES OF THE RITZ GROUP, LTD.,
*Respondents.*

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**On Petitions for Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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## BRIEF FOR RESPONDENTS ON PETITIONS FOR WRITS OF CERTIORARI

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Respondents Coalition to Preserve the Integrity of American Trademarks, Cartier, Inc., and Charles of the Ritz Group, Ltd., respond to the three petitions for writs of certiorari to review the judgment of the United States Court of Appeals for the District of Columbia Circuit in this case. Respondents agree with petitioners that the issue of statutory construction described in respondents' second question presented is an important one that this

Court should resolve. But they submit that neither that issue nor the issue of jurisdiction described in the first of respondents' questions presented is close enough to warrant briefing and argument. They believe that the Court can satisfy itself on that score by reading the opinion below and the two other directly relevant appellate opinions.[1] It will find that the court below was clearly right in reading Section 526 of the Tariff Act of 1930 to mean what it says, that there is a large measure of agreement on the interpretation of the statute among the three opinions, and that, to the extent that the results of the decisions of the two other courts of appeals depart from the decision below, they are indefensible. The Court should therefore grant certiorari and summarily affirm.

## STATEMENT

This case concerns the gray market or, as the phenomenon is also called, parallel importation or diversion of goods. The several terms describe the purchase abroad of trademarked goods intended for markets other than the United States and their importation into the United States without the consent of the United States trademark owner. Gray-market transactions are economic when the cost of transporting goods to the United States is less than the cost of brand-name advertising and other promotional activities that must enter into the retail price of goods sold through the trademark owner's authorized channels of distribution. Trademark owners have to engage in advertising and other promotional activities, including after-sale services, to build and maintain the

[1] Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986), *petition for cert. filed* Nov. 6, 1986 (No. 86-757). Vivitar Corp. v. United States, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 106 S. Ct. 791 (1986). For reasoned district-court treatments of the issue, the Court should consult Bell & Howell: Mamiya Co. v. Masel Supply Co., 548 F. Supp. 1063 (E.D.N.Y. 1982), *vacated on other grounds*, 719 F.2d 42 (2d Cir. 1983); Osawa & Co. v. B & H Photo, Inc., 589 F. Supp. 1163 (S.D.N.Y. 1984).



goodwill associated with their trademarks. Importers and sellers of gray-market goods have a free ride on the trademark owners' expenditures for those purposes. For that reason, the gray market has been heavily concentrated on goods that are relatively valuable per unit of weight and are the subject of costly brand-name, trademark promotion: cameras, binoculars, watches, perfumes and cosmetics, electronic goods.

The gray market is not unique to the United States. It can and does exist whenever and wherever the relationship of transportation costs to promotional costs favors the free rider. Its existence is therefore not evidence of manufacturers' discriminating against United States distributors in the prices they charge. Indeed, most goods that are the subject of the gray market are so highly competitive that there is no possibility of such price discrimination.

Gray market is not a synonym for discount prices. The great bulk of goods sold at reduced prices in the United States have historically been, and continue to be, authorized goods. Gray-market goods are frequently sold by discount outlets, whose prices for all goods, gray market or authorized, tend to be lower than those of other retailers because they offer less service. Some gray-market goods sell at a discount in the retail market because of their inferior quality. Sophisticated purchasers of expensive photographic equipment, for example, know to demand a discount when a camera does not carry the authorized United States distributor's warranty. And some gray-market goods are sold at outlets where there is no price discounting at all.

If the gray market does produce bargains for some present consumers, the bargains are purchased at the price of an erosion of the return on trademark owners' investment in the goodwill that their trademarks embody. When the return drops low enough, the investment will be

forgone, and consumer welfare, enhanced by the interbrand competition that the promotion of trademarked goods fosters, will suffer.

This Court is of course not asked to resolve the policy issues implied by the foregoing paragraphs of background facts. The Court can know, however, that Congress acted rationally when it decided in 1922 that the goodwill of United States trademark owners should be protected against "the importation of merchandise bearing the same trade-mark as merchandise of the United States" even though "the imported merchandise is genuine and . . . there is no fraud upon the public" (Pet., No. 86-625, p. 15a)—and without regard to the relationship of the United States trademark owner to the person who affixed the identical trademark abroad.

The congressional decision of 1922 is embodied in Section 526 of the Tariff Act of that year, later repealed and reenacted as Section 526 of the Tariff Act of 1930. The effect of the statute, as the 1922 conference committee said, was to make "such importation," *i.e.*, "the importation of [genuine] merchandise bearing the same trademark as merchandise of the United States," "unlawful without the consent of the owner of the American trademark . . . ." (Pet., No. 86-625, p. 15a.) The statute provides that "it shall be unlawful to import into the United States any merchandise of foreign manufacture" bearing a trademark "owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States" and recorded with the Customs Service, "unless written consent of the owner" of the registered trademark "is produced at the time of making entry." 19 U.S.C. § 1526(a) (Pet., No. 86-625, p. 2).

The gray market persists despite this uncommonly unambiguous expression of the congressional will because



of regulations adopted by the Customs Service in 1972. The regulations provide that the Section 526 prohibition of importation of goods bearing a trademark identical to a United States trademark does not apply if (1) the foreign and United States trademarks are owned by the same person or company, (2) the owners of the two marks are parent and subsidiary or otherwise subject to common ownership or control, or (3) the foreign trademark was applied with the authorization of the United States trademark owner. 19 C.F.R. § 133.21(c)(1)-(3) (Pet., No. 86-625, p. 2).

This suit was brought in the district court in early 1984 on behalf of the Coalition to Preserve the Integrity of American Trademarks and two of its members, Cartier, Inc., and Charles of the Ritz Group, Ltd. Cartier, like many COPIAT members, is a subsidiary of a foreign concern; it is the United States distributor for Cartier watches and owns the United States Cartier trademark. Like other COPIAT members, Charles of the Ritz, a subsidiary of Squibb Corporation, is a United States manufacturer; its perfumes are also manufactured abroad by affiliates and by its authority. Both the individual plaintiffs and many similarly situated COPIAT members are denied the protection of Section 526 for their trademarked goods because of the 1972 Customs Service regulations. They sued for a declaration that the regulations are inconsistent with Section 526 (and with Section 42 of the Lanham Trademark Act) and for injunctive relief.

The district court sustained its jurisdiction under Section 1338(a) of Title 28 and Section 39 of the Lanham Act against the challenge of the intervenor 47th Street Photo. On the merits it sustained the regulations.

The court of appeals, in a unanimous opinion written by Judge Silberman and joined by Judges Mikva and Bork, affirmed the district court's and its own jurisdic-

tion but reversed on the merits, holding that the regulations "simply cannot be squared with Section 526 and are thus invalid." (Pet., No. 86-625, p. 9a.) The court, referring to the framework for decision on review of agency action established by this Court in *Chevron, U.S.A., Inc.* v. *Natural Resources Defense Council*, 467 U.S. 837, 842-44 (1984), found that "Congress' intent in Section 526 is clear, and thus 'that is the end of the matter.'" (Pet., No. 86-625, p. 11a.) Alternatively, it held the regulations invalid "because they do not constitute a reasonable interpretation of Section 526." (*Id.*)

In finding that Congress' intent in enacting Section 526 was clear and that the regulations do not reasonably interpret the statute, the court stated initially what no one has denied—that "Section 526 does not, on its face, admit of any exceptions based upon the relationship of the American and foreign trademark owners or upon whether the American owner has authorized the use of the trademark abroad." (*Id.* at 10a.) The court found that the broad apparent meaning of the statute was confirmed by the history of its enactment in 1922 and reenactment in 1930 and that neither the subsequent vacillating and uncertain administrative interpretation nor any subsequent congressional action or inaction justified the evisceration effected by the 1972 Customs Service regulations. (*Id.* at 14a-31a.) The court directed the entry of the requested declaratory judgment but withheld injunctive relief. It did not reach the question under Section 42.

Two similar cases have been decided by other courts of appeals, one before and one after this one. In *Vivitar Corp.* v. *United States*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 106 S. Ct. 791 (1986), the court likewise rejected all the reasons offered for accepting the regulations as correctly interpreting the statute but sustained them as enforcement guidelines for the Customs Service. In *Olympus Corp.* v. *United States*, 792 F.2d 315, 320



(2d Cir. 1986), *pet. for cert. filed* Nov. 6, 1986 (No. 86-757), the court similarly declined to hold that the regulations properly "limit the reach of protection of section 526" and sustained them "as an exercise of Customs' enforcement discretion." The decisions of both the Federal Circuit and the Second Circuit leave it up to trademark owners suffering gray-market inroads to sue importers or dealers under Section 526(c) of the Tariff Act of 1930, 19 U.S.C. § 1526(c), which provides for private remedies against "[a]ny person dealing in" merchandise whose importation is forbidden by Section 526(a). The Second Circuit in the *Olympus* case agreed with the court below that the district courts have jurisdiction of an action such as this one; the Federal Circuit held in *Vivitar* that the Court of International Trade had jurisdiction.

## ARGUMENT

There is undoubtedly a conflict among the circuits on the issue of jurisdiction. The conflict of decisions on the merits is not so clear. No court of appeals has sustained the position advanced here by the Government and the private petitioners—that the challenged Customs Service regulations are a correct interpretation of the statute. But the Customs Service is subject to differing directions from the three courts of appeals, and this Court is bound to reconcile the difference.

The jurisdictional issue is a one-time issue of no general practical or doctrinal importance. It can arise only in a suit such as this one or *Olympus* or *Vivitar*, and once the validity of the regulations is determined there will be no more such suits. There is, moreover, no doubt of what the proper resolution of the issue is: jurisdiction plainly lies in the district courts and not the Court of International Trade. The issue on the merits is important, but it too is not a difficult one.

In the circumstances the appropriate course for the Court, presented with issues of statutory construction

that it is bound to resolve but that pose no particular difficulty in their resolution, is to grant the requested writs of certiorari and summarily to affirm the judgment below, which reached the obviously correct result on both issues. *See Lines* v. *Frederick*, 400 U.S. 18 (1970); *United States* v. *Lane Motor Co.*, 344 U.S. 630 (1953).

1. In addition to the general federal question jurisdiction, 28 U.S.C. § 1331, two specific grants of jurisdiction establish and confirm the jurisdiction of the district court to hear and decide this case. The district courts have "original jurisdiction of any civil action arising under any Act of Congress relating to . . . trademarks." *Id.* § 1338(a). And, under Section 39 of the Lanham Act, they have original jurisdiction "of all actions arising under" that statute. 15 U.S.C. § 1121. This action arose under both Section 526 of the Tariff Act of 1930 and Section 42 of the Lanham Act, both of which are acts relating to trademarks. Nothing in the Court of International Trade's detailed jurisdictional statute, 28 U.S.C. § 1581, gives that court jurisdiction of this kind of case to the exclusion of the district courts, in derogation of the district courts' traditional trademark jurisdiction. The Government agrees with respondents on this point.

The Court of Appeals for the Federal Circuit relied in the *Vivitar* case on two paragraphs of Section 1581 as conferring jurisdiction of a case like this one on the Court of International Trade. 761 F.2d at 1557-60. As the court below demonstrated, the Federal Circuit is wrong as to both paragraphs. (Pet., No. 86-625, pp. 5a-8a.) Section 1581 (i)(4), relied on by the Federal Circuit, gives the Court of International Trade jurisdiction of actions against government agencies or officials arising under any law of the United States providing for "administration and enforcement with respect to the matters referred to in" other specific provisions of Section 1581.



Whatever Section 526(a) of the Tariff Act is, it is not a law that fits that description. As the court below indicated, the cases that Section 1581(i)(4) empowers the Court of International Trade to hear are those challenging procedures—"administration and enforcement"—pertinent to matters, such as the denial of importers' protests against exclusions, whose substance is otherwise within the court's jurisdiction. (*Id.* at 7a.)

The court below also was correct in holding that Section 526(a) is not a statute providing for an embargo within the meaning of Section 1581(i)(3), the other provision relied on in *Vivitar*. Section 1581(i)(3) empowers the Court of International Trade to hear suits against federal agencies or officials arising under any law of the United States providing for "embargoes or other quantitative restrictions on the importation of merchandise." As the court below said, the structure of Section 1581 "indicates that Section 1581(i)(3) only extends to quotas and embargoes arising out of trade policy, the sort of measures that have traditionally limited the importation of shoes, textiles, automobiles, and the like." (*Id.* at 8a.) Section 526 (and Section 42 of the Lanham Act) establish trademark policy, not trade policy.

2. On the merits, we commend to the Court Judge Silberman's opinion for a unanimous panel below. Because his analysis is disinterested, it is more persuasive than anything we could say for the proposition that the Customs Service regulations are irretrievably inconsistent with the statute they purport to interpret.

Judge Silberman begins with a statute of which he is able to say matter-of-factly, without fear of contradiction: "The broad protection afforded American trademark owners by Section 526 literally covers the . . . situation" of COPIAT and its members. (*Id.* at 11a.) He finds nothing in secondary sources that cuts away any of the statute's apparent literal coverage.

a. Indeed, the court's "review of the circumstances prompting the enactment of Section 526 and its legislative history" persuaded it "that the statute embodies a purpose as sweeping as the terms its drafters employed." (*Id.* at 12a.) Specifically, Judge Silberman noted the genesis of the statute in the reaction to the Second Circuit's decision in *A. Bourjois & Co.* v. *Katzel*, 275 F. 539 (2d Cir. 1921). That decision was the final flourishing of the Second Circuit's "universality" theory of trademarks, which prevailed until first Congress by enacting Section 526 and then this Court by reversing the court of appeals' *Katzel* decision, *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689 (1923), acted to enshrine the more protective "territoriality" theory as the law of the United States. The "territoriality" principle maintains that the laws of each particular country define the scope of trademark protection, so that a United States trademark indicates the source of goods and goodwill of the trademark owner in the United States only, and an identical French trademark, for example, is in law a different mark. (*Id.* at 12a-14a.)

Judge Silberman found in the 1922 conference committee report (p. 4, *supra*) a "reflection of Congress' sweeping rejection" of the prevailing universality theory. (Pet., No. 86-625, p. 15a.) The other piece of 1922 history is a brief Senate debate on the floor amendment that became Section 526 of the Tariff Act of that year. Remarks during that debate are the only basis ever adduced for an argument that Congress in the first instance intended to protect fewer than all of the United States trademark owners that Section 526 seems on its face to protect. Judge Silberman, to the contrary, found in the debate reinforcement for the "conclusion that Section 526 confers an absolute, unqualified property right upon American companies that own registered trademarks." (*Id.* at 16a.)



As a conclusive final point on the legislative history, Judge Silberman noted that, when Section 526 was repealed and reenacted as Section 526 of the Tariff Act of 1930, the Senate adopted an amendment that would have deleted from the section the clause allowing goods to enter this country with the consent of the United States trademark owner. The amendment, rejected in conference, "was designed to protect American jobs by preventing U.S. manufacturers from establishing foreign-based plants." (*Id.* at 20a.) The failed amendment "would have been wholly ineffectual and purposeless" if, as the 1972 regulations say, the statute does not in any event bar the importation of goods, with or without the United States trademark owner's consent, where the United States trademark is owned by the same person who owns the identical foreign trademark. For that would necessarily be true in the case of the runaway plant. The history of action on the deletion proposed during the reenactment process was proof to the court "that the entire body in 1930—those favoring and those opposing the amendment—believed that Section 526 applied to all situations literally within its terms." (*Id.* at 21a.)[2]

b. Judge Silberman found no such 50-year history of consistent administrative interpretation of the statute as the petitioners claim. (*Id.* at 20a-29a.) He noted that in its initial, contemporaneous interpretations of the statute—regulations adopted in 1923 and 1931, hard on enactment and reenactment, which is before petitioners' 50 years even begin—"the Customs Service gave no hint . . . that it discerned implied limitations on the scope of Section 526." (*Id.* at 21a.) Further, the 1936 regu-

[2] Impervious to logic, the petitioner K mart (Pet., No. 86-495, p. 15 & n.13) persists in offering as authority for its position a quotation from one of the sponsors of the 1930 Senate amendment, which, coming from him, makes no sense if read as petitioner would have it read. The court below made the point crystal clear. (Pet., No. 86-625, pp. 20a-21a n.12.)

lations with which history begins for petitioners apparently related solely to another statute and not to Section 526 (*id.* at 23a-24a);[3] later, in 1953, Section 526 was deliberately deleted from the statement of statutory authority for a regulation that for the period between 1953 and 1959 excepted trademarks owned by related companies (the only time before 1972 there was such an exception in published regulations) (*id.* at 25a); during this period the statute was enforced to the benefit of

[3] Section 27 of the Trade-Mark Act of 1905, in force in 1936, prohibited the importation of goods bearing trademarks (or trade names) that "copy or simulate" registered United States trademarks or trade names. In A. Bourjois & Co. v. Aldridge, 263 U.S. 675 (1923), this Court on the authority of its decision in A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923), answered in the affirmative a question certified by the Second Circuit: whether a collector of customs was bound under Section 27 to exclude goods bearing a genuine foreign trademark identical to a registered United States trademark. The 1936 regulation from which petitioners date their history of administrative interpretation provided that a genuine identical trademark or trade name (Section 526 has nothing to do with trade names) should "be deemed . . . to copy or simulate" a registered United States trademark or trade name. It was thus a belated recognition of the gloss that *Aldridge* had placed on Section 27; a reference to *Aldridge* was printed in the margin of the regulation. A second sentence of the regulation said that an identical genuine foreign trademark or trade name should not be deemed to copy or simulate a registered United States trademark or trade name if they were owned by the same person or business entity.

When Congress was considering trademark legislation in the 1940s, a witness for the Tariff Commission (from whose testimony the petitioner K mart, in a bit of bravado, quotes, Pet., No. 86-495, p. 18) explained that this regulation related only to Section 27 and not to Section 526 and that the reason for the second sentence was no consideration of policy but a conceptual difficulty with the idea that a company could "copy or simulate" its own trademark. So informed, Congress left Section 526 on the books and enacted Section 42 of the Lanham Act of 1946 as the identical successor to Section 27 of the Trade-Mark Act of 1905. The entire history is recounted in the court of appeals' opinion. (Pet., No. 86-625, pp. 23a-24a & n.13.)



American distributors of French perfumes who owned the American trademarks, and the Solicitor General represented to this Court that despite the affiliation of these distributors with the French manufacturers the Customs Service considered itself "constrained to grant the[ir] claims of statutory protection" (*id.*);[4] there was no explanation of the 1972 regulations when they were adopted, but the Secretary of the Treasury said later that they were based on antitrust doctrine that was outmoded even in 1972 (*id.* at 27a); the regulations were repudiated in an amicus brief filed on behalf of the United States by the Antitrust Division joined by the chief counsel of the Customs Service, in which it was argued "that Section 526 raised no antitrust concerns and *ought to be enforced according to its expressed terms*" (*id.;* emphasis the court's). The court inevitably concluded from the recital here summarized that the non-contemporaneous interpretation of the statute now espoused by the Customs Service—which is not "supported by anything more than poorly articulated and vacillating reasoning"—"does not display the necessary 'thoroughness, validity, and consistency' to merit judicial acceptance." (*Id.* at 28a.)

c. Finally, Judge Silberman found no "'pattern of legislative acquiescence'" in the supposed administrative interpretation of Section 526. (*Id.* at 29a.)[5]

[4] *See* United States v. Guerlain, Inc., 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded*, 358 U.S. 915 (1958), *dismissed with prejudice*, 172 F. Supp. 107 (S.D.N.Y. 1959); the quotation is from the Solicitor General's (appellee's) motion to vacate at 7, Guerlain, Inc. v. United States, 358 U.S. 915 (1958), Nos. 24, 30 and 31, O.T. 1958.

[5] For the most part, the subsequent history of congressional consideration is a history of unsuccessful efforts to repeal or modify Section 526 to make it accord with the Customs Service's present interpretation. (Pet., No. 86-625, pp. 24a, 26a, 29a.) No acquiescence or ratification can be inferred from that part of the history. In 1978, Section 526 was amended, the only time that it has been

The four members of the five-judge Federal Circuit panel who joined in that court's opinion in the *Vivitar* case would scarcely disagree with the D.C. Circuit's analysis. For them, Judge Nies declared that (1) "no limitations, based on indications of congressional intent at the time of enactment, can be read into the statute itself," 761 F.2d at 1565; (2) "the 'long standing administrative interpretation' argument . . . does not afford a basis for a definitive statutory interpretation," *id.* at 1568; and (3), so far as supposed legislative acquiescence is concerned, "[l]egislation by total silence is too tenuous a theory to merit extended discussion," *id.* For these reasons, the court "rejected the government's argument that the statute must be interpreted as limited by the regulations." *Id.* at 1570. The majority of the Second Circuit panel in *Olympus* similarly took the position that the regulations do "not limit the reach of protection of section 526." 792 F.2d at 320.

3. The position of both the Federal Circuit and the Second Circuit that the regulations, though they do not properly interpret the statute, can be sustained as Customs Service enforcement guidelines is untenable. The position is not embraced by the Government, which states to this Court that "[t]he regulations . . . reflect the Customs Service's interpretation of a statute that Con-

amended, to create an exception for a limited quantity of goods brought in for a person's own consumption or use. (*Id.* at 27a-28a.) The court below quotes a passage from a committee report published in connection with this amendment, which is the main basis of the argument for legislative acquiescence in or ratification of the 1972 regulations. (*Id.* at 28a.) As can be seen, the committee mentioned only one of the limitations found in the regulations, the least important of them, the exception for trademarks affixed by authorization of the United States trademark owner (which, in fact, was first indicated to be an exception in 1969, not 20 years before 1978, as the committee stated). Even that single exception, moreover, was misstated by the committee. It would be very hard to divine what Congress was ratifying if it were taken to have acted on the quoted committee report.



gress has charged it with administering." (Pet., No. 86-625, p. 8.) That is the unvarying Customs Service position. The regulations are not now and have never been characterized or represented by the Government as enforcement guidelines. As put by the court below, "[f]rom the start, the Customs Service has regarded the regulations as its interpretation of what the law requires rather than as a decision not to prosecute to the letter of the law." (Pet., No. 86-625, p. 31a.) Accordingly, to uphold the regulations as enforcement guidelines would be plainly to violate the familiar rule of *SEC* v. *Chenery Corp.*, 318 U.S. 80, 95 (1943), that an agency's action "cannot be upheld unless the grounds upon which the agency acted in exercising its powers were those upon which its action can be sustained." The intrusion into the agency's competence that is involved is plainly seen in the footnote in which the Second Circuit in *Olympus* defended against the *Chenery* challenge to its decision. 792 F.2d at 321 n.1.

Indeed, the decisions of the Second and Federal Circuits can fairly be viewed as in breach of a rule of even longer standing than the *Chenery* rule—the rule that a reviewing court is limited to deciding issues of law and may not make the decisions of policy and discretion that Congress has entrusted to an agency. The court's function is exhausted when it instructs the agency on the law. *Perkins* v. *Elg*, 307 U.S. 325, 349-350 (1939); *FPC* v. *Idaho Power Co.*, 344 U.S. 17 (1952); *Sunray Mid-Continent Oil Co.* v. *FPC*, 353 U.S. 944 (1957). So here, once the courts of appeals had satisfied themselves that the regulations did not mark the limit of the statute as the agency contended that they did, the courts could not properly decide that the agency might nevertheless, as a matter of its discretion, decline to enforce the statute to its limit. If the statute gives the agency that freedom (which, in a case that properly posed the issue, these respondents would deny), only the agency can decide whether to exercise it.

Moreover, Judge Winter, dissenting in *Olympus*, pointed out that the administrative problems that the Second Circuit and the Federal Circuit cited as reasons why the Customs Service would wish to limit its enforcement activities in deference to private enforcement under Section 526(c) are of the courts' own making. 792 F.2d at 322. Congress is entitled to legislate by categories, according to traits that characterize the generality of the occupants of its categories. In Section 526 it legislated simply and straightforwardly, conferring the right to exclude certain imports on a broad and easily recognizable category of persons. It did not require those within the category to make individual proof in fact of a distinct United States goodwill associated with a trademark or individual proof to satisfy other criteria that the Second Circuit thought would have to be litigated in a Section 526 case, 792 F.2d at 320. (*See* Pet., No. 86-625, p. 14a n.10.)

4. Given the practical problem of an agency confronted with the disparate if not conflicting court of appeals decisions and the other considerations that militate in favor of a definitive ruling on an issue that has been in contention for some years, the appropriate course for this Court is to grant certiorari and summarily affirm. Briefing and argument on the issues would not illuminate them beyond the illumination already provided by the opinion below and the other opinions. There is no serious contention that the statute is at all ambiguous or that, read to mean what it says on its face, it produces an absurd result so as to justify ignoring its plain terms. As Judge Silberman (and Judge Nies of the Federal Circuit) have demonstrated in their opinions, there is nothing in the legislative history, the long-term course of administrative interpretation, or congressional action since the statute was enacted in 1922 and reenacted in 1930 that would warrant this Court in rewriting the statute or ruling that the Customs Service acted reasonably in rewriting the statute when it prom-



ulgated its regulations in 1972. The supposedly conflicting decisions of the other courts of appeals, so plainly wrong in their results, afford no reason for withholding summary disposition.

This Court has granted certiorari and summarily affirmed on prior occasions when it was confronted with conflicting court of appeals decisions on issues of statutory construction that were readily resolved. *See Lines* v. *Frederick* 400 U.S. 18 (1970); *United States* v. *Lane Motor Co.*, 344 U.S. 630 (1953). It has taken summary action on a petition for certiorari "[i]n order to clarify whatever uncertainty might exist," *Donovan* v. *Penn Shipping Co.*, 429 U.S. 648, 650 (1977), on account of decisions of courts of appeals that "depart from . . . unbroken precedents," *id.* at 649. Here there is uncertainty that should be dispelled, and the correct answer is not in doubt.

## CONCLUSION

For the foregoing reasons, the petitions for a writ of certiorari should be granted and the decision of the Court of Appeals for the District of Columbia Circuit should be summarily affirmed.

Respectfully submitted,

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November 19, 1986

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## APPENDIX

The members of COPIAT are as follows:

AC&R Advertising Inc.
Alfin Fragrances, Inc.
American Cyanamid Company/Jacqueline Cochran
American Watch Association
Auto-Time
Avon Products, Inc.
Baccarat, Inc.
Bercut-Vandervoort & Co.
Brielle Galleries
Brown & Company, Inc.
Calvin Klein Cosmetics Corp.
Canon U.S.A., Inc.
Carl Zeiss, Inc.
Cartier, Inc.
Charles of the Ritz Group, Ltd.
Citizen Watch Company of America, Inc.
Colonia Inc.
Computer Retail Trade Association
Cosmair, Inc.
Dennis Time Company
Dial Corporation/Greyhound Corp.
Diodon, Inc.
Distilled Spirits Council of the U.S., Inc.
Duracell Inc.
Electronic Industries Association/Consumer
Electronics Group
E. Leitz, Inc.
Elizabeth Arden, Inc.
Estee Lauder Inc.
Giorgio, Inc., Perfume Division
G-K-G Inc.
G.M.I. Photographic Inc.
Halston Fragrances, Inc.
Joseph E. Seagram & Sons, Inc.
Maier & Berkele

Mimco
Minolta Corporation
National Association of Beverage Importers, Inc.
Nikon Inc.
North American Watch Corporation
NETCO
Omichron Corporation
P. Robertet, Inc.
Paco Rabanne Parfums
Parfums Givenchy, Inc.
Parfums Stern Inc.
Parfums Worth Corp.
Pentax Corporation
PFW, Division of Hercules, Inc.
Photographic Manufacturers and Distributors
Association, Inc.
Photographic Trade News
Polaris Optics
Procter & Gamble Company
Revlon, Inc.
Richardson-Vicks Inc.
Schneider Corporation of America
Seiko Time Corporation/Hattori Corporation of
America
Sinar Bron, Inc.
Sony Corporation of America
Stanhill Enterprises, Inc.
Tessler & Company, Inc.
Texchron Inc.
Tokina Optical Corporation
Victor Hasselblad Inc.
Warner Cosmetics Incorporated
Weil Ceramics & Glass, Inc.
The Wilkes Group Inc.

# REPLY BRIEF

No. 86-624



IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

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47TH STREET PHOTO, INC., *Petitioner*

v.

COALITION TO PRESERVE THE INTEGRITY
OF AMERICAN TRADEMARKS, *et al.*

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**On Petition for Writ of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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## PETITIONER'S REPLY MEMORANDUM

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IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

No. 86-624

47TH STREET PHOTO, INC., *Petitioner*

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

**On Petition for Writ of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

## PETITIONER'S REPLY MEMORANDUM

The first Question Presented in our petition raises an important legal issue concerning the exclusive jurisdiction of the Court of International Trade over suits against the United States involving the importation of merchandise manufactured abroad. For reasons stated in our Brief for Respondents in Nos. 86-495, 86-625, and 86-757, which we incorporate here by reference, we believe that the jurisdictional issue warrants separate plenary consideration by this Court.

The decision of the Court of Appeals for the Second Circuit sought to be reviewed in No. 86-757 conflicts with the decision of the Court of Appeals for the District of Columbia Circuit in this case. We discuss in our Brief for Respondents in Nos. 86-495, 86-625, and 86-757, why we believe that the jurisdictional and substantive issues would be presented to this Court in a more orderly manner if the petition in No. 86-757 were selected as the vehicle to review the important substantive question concerning the interpretation of Section 526 of the Tariff Act. We suggest, therefore, that the Court defer action on the petitions in Nos. 86-495, 86-624, and 86-625 until it also has before it the petition and responsive papers in No. 86-757.

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November 26, 1986

# AMICUS CURIAE

# BRIEF

No. 86-495 (4)
86-624 (4)
86-625 (3)



IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

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K MART CORPORATION;
47TH STREET PHOTO, INC.;
and THE UNITED STATES OF AMERICA,
*Petitioners,*

v.

CARTIER, INC., CHARLES OF THE RITZ
GROUP, LTD., and COALITION TO PRESERVE
THE INTEGRITY OF AMERICAN TRADEMARKS,
*Respondents.*

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## AMICUS CURIAE BRIEF OF THE AMERICAN FREE TRADE ASSOCIATION IN SUPPORT OF PETITIONS FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

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13pp

## QUESTION PRESENTED

Is a Customs Service regulation, which permits the importation of foreign-manufactured merchandise bearing a trademark identical to a U.S. registered trademark when (1) the foreign and U.S. trademark are owned by the same person; (2) the foreign and U.S. trademark owners are subject to common ownership or control; or (3) the trademark was applied under authorization of the U.S. trademark owner, a valid interpretation of Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, based upon the legislative history of the Act and its 1922 predecessor and upon approximately fifty years of administrative enforcement of this policy and Congressional acquiescence?

## PARTIES TO THE PROCEEDING

The petitioners are K mart Corporation; 47th Street Photo, Inc.; and the United States of America. The respondents are Cartier, Inc.; Charles of the Ritz Group, Ltd.; and Coalition to Preserve the Integrity of American Trademarks (COPIAT). The petitions have been consolidated for consideration by the Court, upon Motion of petitioner United States of America.

## TABLE OF CONTENTS





## TABLE OF AUTHORITIES

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

---

No. 86-495
86-624
86-625

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K MART CORPORATION;
47TH STREET PHOTO, INC.;
and THE UNITED STATES OF AMERICA,
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v.

CARTIER, INC., CHARLES OF THE RITZ
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*Respondents.*

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## AMICUS CURIAE BRIEF OF THE AMERICAN FREE TRADE ASSOCIATION IN SUPPORT OF PETITIONS FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

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The American Free Trade Association respectfully submits this brief as amicus curiae in support of the petitions for a writ of certiorari to the United States Court of Appeals for the District of Columbia Circuit filed by K mart Corporation, 47th Street Photo, Inc. and the United States of America. The petitions have been consolidated for consideration by the Court, upon motion of petitioner United States of America.[1]

[1] Pursuant to Rule 36.1 of this Court, consent to the filing of this brief has been granted by all parties. Their consents have been filed with the Clerk.

## INTEREST OF AMICUS CURIAE

The American Free Trade Association is an incorporated trade association of independent American importers, distributors and wholesalers of parallel import fragrances, colognes, and health and beauty aids, such as shampoos, soaps, and other items commonly purchased in drug stores. Many of the Association's members are small businesses. They are located throughout the United States and employ more than 1,500 people. AFTA members in turn supply other distributors, wholesalers, and numerous, well-known retail outlets which employ many thousands more.[2] Many of the Association's members have been in the parallel import business for more than a dozen years.

Parallel imports are genuine trademarked consumer products, such as fragrances, 35mm cameras, electronic products, and watches, which are manufactured abroad and imported by independent American importers rather than by "authorized" U.S. importers and distributors. Parallel imports exist because the manufacturers, for reasons of their own, seek significantly higher prices for their products in the United States than elsewhere in the world. They do this by creating wholly-owned or controlled subsidiaries in this country, designating those companies as the exclusive "authorized" importers and distributors for their products here, and refusing to sell to retailers who will not maintain the higher prices for the products.

The obvious result in a free enterprise, free trade market is that independent American importers can purchase the same products overseas at the world price, often directly from the manufacturers' "authorized" distributors abroad. The foreign manufacturers' price differential for the U.S. market is so great that, even after paying shipping costs and U.S. Customs duties, the parallel importer can offer the identical articles for twenty to forty percent less than the U.S. "authorized" distributor.

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[2] For example, one of the drug store chains supplied by Association members has 1,500 stores with many thousands of employees and annual sales in excess of $2 billion.



The result is a saving to American consumers amounting to billions of dollars a year. Another result is the availability of popular products to a much wider spectrum of Americans who do not live in the large cities where the exclusive authorized stores are generally located. The parallel import trade has also served as an independent bulwark against unrestrained increases in the domestic price of imported consumer goods as compared to prices available worldwide.

A substantial American industry of importers, distributors, retailers, and catalog-showroom merchandisers, with hundreds of thousands of employees, serves the millions of American consumers who buy these popular, foreign-made products at the prices they would pay if they could shop for them abroad. The retailers of parallel imports are responsible for total consumer sales of $100 billion a year. The parallel import industry also makes an enormous investment in the good will of trademarked products through its own widespread advertising and marketing of these products.

AFTA's interest in this case is very real, immediate and direct. If the decision below is not reversed, parallel importation will be effectively eliminated. AFTA's members, and all other independent U.S. importers and distributors of parallel imports, will be out of business. Retailers that sell parallel goods will also be severely injured. Because of the severity of the potential consequences, AFTA participated as an amicus curiae in this case before both the District Court and the Court of Appeals. AFTA has also participated as an amicus curiae in other cases which have considered the validity of the Customs Service regulation, *Vivitar Corp. v. United States,* 593 F. Supp. 420 (C.I.T. 1984), *aff'd,* 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied,* No. 85-411 (October 13, 1986), and *Bell and Howell: Mamiya Co. v. Masel Supply Co.,* 719 F.2d 42 (2d Cir. 1983), *vacating and remanding,* 548 F.Supp. 1068 (E.D.N.Y. 1982).

## STATEMENT OF THE CASE

The law and policy of the U.S. government have permitted parallel importation for more than half a century. Customs

Service regulations, based upon the Tariff Act of 1922 and the Tariff Act of 1930, 19 U.S.C. 1526, have permitted parallel importation only under specific, narrowly-defined circumstances. The current regulation, in place since 1972, permits parallel importation only when the foreign and U.S. trademark holders are (1) the same company or (2) under common ownership or control, or (3) where the U.S. trademark owner has authorized the placing of the mark on the product. 19 C.F.R. 133.21(c). In these cases, the regulation does not permit a trademark holder to block the entry of parallel imports.

The courts have also long upheld parallel importation despite numerous challenges under trademark and tariff laws.[3] In fact, the Court of Appeals below is the first court ever to hold that Section 526 of the Tariff Act of 1930, 19 U.S.C. 1526, requires the exclusion of all parallel imports.

The respondents commenced this action before the District Court, seeking declaratory and injunctive relief, based on their claim that the Customs regulation was inconsistent with the Tariff Acts of 1922 and 1930 and the Lanham Trademark Act of 1946, 15 U.S.C. 1124. *Coalition to Preserve the Integrity of American Trademarks v. United States,* 598 F. Supp. 844 (D.D.C. 1984). The District Court rejected the respondents' claim and upheld the validity of the regulation. The District Court found that the Customs Service's long-standing interpretation of Section 526 of the Tariff Act was reasonable and supported by legislative history, judicial decisions, and legislative acquiescence. *Id.* at 852.

On appeal, the court below reversed the District Court on the ground that the Customs Service regulation is inconsistent

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[3] *See Bell and Howell: Mamiya Co. v. Masel Supply Co.,* 719 F.2d 42 (2d Cir. 1983), *vacating and remanding,* 548 F. Supp. 1068 (E.D.N.Y. 1982); *Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp.,* 707 F.2d 1054 (9th Cir. 1983); *Diamond Supply Co. v. Prudential Paper Products Co.,* 589 F. Supp 470 (S.D.N.Y. 1984); *El Greco Leather Products Co. v. Shoe World, Inc.,* 599 F. Supp. 1380 (E.D.N.Y. 1984); *Parfums Stern, Inc. v. United States,* 575 F. Supp. 416 (S.D. Fla. 1983); *United States v. Guerlain,* 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded,* 358 U.S. 915 (1958), *dismissed,* 172 F. Supp. 107 (S.D.N.Y. 1959).



with Section 526 of the Tariff Act and therefore invalid. *Coalition to Preserve the Integrity of American Trademarks v. United States,* 790 F.2d 903, 913 (D.C. Cir. 1986). Rejecting the reasoning of the District Court and of the U.S. Court of Appeals for the Federal Circuit, which had upheld the regulation in the *Vivitar* case, the court below held that Section 526 requires the exclusion of all parallel imports regardless of the relationship between the foreign and U.S. trademark holders.[4]

## REASONS FOR GRANTING THE WRIT

The issues in this case vitally affect the interests of both consumers and thousands of businesses across the United States. The Court of Appeals with one stroke would wipe out enormous consumer savings and an entire industry. It is totally implausible that the Congress in 1922 and 1930 intended to permit foreign manufacturers to charge higher prices in the United States than they do in other world markets. The scope of products affected by the Court of Appeals decision encompasses a wide a range of popular, brand-name products which United States citizens purchase at substantial savings. Review by this Court is therefore urgently required in order to avoid the serious dislocations and adverse impact upon the public interest which would surely result from the implementation of the Court of Appeals decision.

The decision of the Court of Appeals below is in direct conflict with the decisions of the Courts of Appeals for the Federal Circuit and the Second Circuit. Prior to the Court of Appeals decision below, the Federal Circuit, in *Vivitar Corp. v. United States,* 761 F.2d 1552 (Fed. Cir. 1985) *cert. denied,* No. 85-411 (October 13, 1986), had found that the Customs Service regulation was "a reasonable exercise of administratively initiated enforcement" and therefore upheld the validity of the

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[4] However, the Court of Appeals denied respondents' demand for a permanent injunction (*id.* at 918), and upon motion of petitioners United States of America and K mart, the Court of Appeals also stayed issuance of its mandate pending the filing of petitions for certiorari to this Court.

regulation. *Id.* at 1571. After the Court below issued its decision declaring the regulation invalid, the Second Circuit, in *Olympus Corp. v. United States,* 792 F.2d 315 (2d. Cir. 1986), concluded that "congressional acquiescence in the longstanding administrative interpretation of the statute legitimates that interpretation as an exercise of Customs' enforcement discretion" and therefore upheld the regulation. *Id.* at 320.

The Customs Service, which is charged with enforcing the country's trade laws uniformly throughout the United States, has been placed in an extremely awkward position as a result of these wholly contradictory Circuit Court rulings on the validity of its regulation. Unless resolved by the Supreme Court, the split in the Circuits will encourage parties aggrieved by a Customs Service decision (either to exclude or to permit the importation of parallel goods) to forum shop for a favorable result in the Circuit of their choice. For example, should the Customs Service decide in a particular case to permit the parallel importation of goods, the Customs Service can anticipate a challenge to that decision by the "authorized distributor" of those goods in the D.C. Circuit.[5] On the other hand, should the agency decide to grant the request of a foreign manufacturer's commonly-owned U.S. affiliate to exclude the importation of "unauthorized" parallel goods, the Customs Service faces a likely challenge from parallel importers or distributors in either the Second Circuit or the Federal Circuit.

Finally, the split between the Circuit Courts of Appeal on this issue poses a severe financial threat to AFTA's members, to all importers and distributors of parallel imports, and ultimately to consumers of these products. With no assurance that trademarked goods purchased independently overseas will be permitted to enter the United States when they arrive, parallel importers will be reluctant to enter into long-term agreements or to plan future purchases. In fact, until this Court resolves the question, with every shipment into the United States parallel importers face the risk that their goods will be excluded from

[5] In fact, such a suit was recently filed in the U.S. District Court for the District of Columbia. *Cacharel USA, Inc. v. William Von Raab, Commissioner of Customs of the United States of America,* Civ. Action No. 86-2873 (D.D.C.), *voluntarily dismissed without prejudice,* (October 27, 1986).



the country or impounded and possibly forfeited by the Customs Service as a result of judicial action in reliance upon the decision below in suits filed by foreign manufacturers or their U.S. affiliates. Similarly, distributors, wholesalers and retailers of parallel goods are unable to depend upon a steady and consistent flow of merchandise.

Only a decision by this Court can end the disruption and uncertainty caused by the decision of the Court of Appeals. AFTA respectfully urges this Court to review the decision of the lower court and to reaffirm the long-established concept that a trademark owner cannot prevent the importation into the United States of genuine merchandise which the trademark owner has placed into the stream of international commerce through either parent, subsidiary or affiliated corporations. Review by this Court is therefore necessary to prevent the destruction of a substantial segment of United States commerce and the imposition of unwarranted costs to American consumers in their purchase of imported goods.

## CONCLUSION

For the foregoing reasons, the American Free Trade Association respectfully requests that the petitions for a writ of certiorari be granted.

Respectfully submitted,

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November 19, 1986

# JOINT APPENDIX

(6) (6) (5)



Nos. 86-495, 86-624 and 86-625

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

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K MART CORPORATION,
*Petitioner*,
v.
CARTIER, INC., *et al.*

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47TH STREET PHOTO, INC.,
*Petitioner*,
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

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UNITED STATES OF AMERICA, *et al.*,
*Petitioners*,
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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## JOINT APPENDIX

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[List of Counsel Appears on the Inside Cover]

PETITION FOR CERTIORARI IN NO. 86-495
FILED SEPTEMBER 26, 1986

PETITIONS FOR CERTIORARI IN NOS. 86-624 AND 86-625
FILED OCTOBER 16, 1986

CERTIORARI GRANTED AND CASES CONSOLIDATED
DECEMBER 8, 1986

94 pp

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February 21, 1987

## TABLE OF CONTENTS

TABLE OF CONTENTS—Continued



NOTE: The following opinions, decisions, judgments and orders have been omitted in printing this Joint Appendix because they appear on the following pages in the appendices to the Petitions for Certiorari filed by K mart Corporation on September 26, 1986, and by the Federal Petitioners on October 16, 1986:





TABLE OF CONTENTS—Continued

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

No. 84-0390

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*,
*Plaintiffs,*

v.

UNITED STATES OF AMERICA, *et al.*,
*Defendants.*

**DOCKET ENTRIES**

| DATE | NR. | PROCEEDINGS |
|---|---|---|
| **1984** | | |
| Feb 6 | 1 | COMPLAINT; appearance. (mj) |
| Feb 6 | | SUMMONS (4) issued. (mj) |
| Feb 8 | 2 | AFFIDAVIT OF SERVICE upon the U.S. Attorney on 2-7-84. (ml) |
| Feb 8 | 3 | AFFIDAVIT OF SERVICE upon deft. Regan on 2-7-84. (ml) |
| Feb 8 | 4 | AFFIDAVIT OF SERVICE upon deft. William Van Raab on 2-7-84. (ml) |
| Feb 10 | 5 | AFFIDAVIT OF SERVICE upon the U.S. Attorney General by certified mail on 2-8-84; attachment. (ml) |
| Feb 23 | 6 | AMENDED COMPLAINT by pltffs. (ml) |
| Mar 20 | 7 | APPEARANCE of David M. Cohen and Velta A. Melnbrencis as counsel for defts. (ml) |

| DATE | NR. | PROCEEDINGS |
|---|---|---|
| 1984 | | |
| Apr 4 | 8 | MOTION by pltffs. for summary judgment; statement of material facts; memorandum of P&A's; table of contents; table of authorities; statements in support with Exhibits 1-6; Appendices A-U. (ml) |
| Apr 9 | 9 | ANSWER by defts. to amended complaint. (ml) |
| Apr 9 | | CALENDARED C/D (N). (ml) |
| Apr 10 | 10 | MOTION by K Mart Corporation to intervene as a matter of right pursuant to Rule 24(a)(2) or, alternatively, for permissive intervention pursuant to Rule 24(b); affidavit of James C. Tuttle; memorandum in support; Exhibit A; Exhibit (Answer); $5.00 fee paid and credited to U.S. Treasury, (Appearance: John F. Bruce, 1730 Pennsylvania Ave., N.W., Washington, D.C. 20006, (202) 783-0800). (ml) |
| Apr 10 | 11 | MOTION by 47th Street Photo to intervene as a matter of right, or alternatively for permissive intervention; memorandum in support; Attachment A; affidavit of Irving Goldstein; Attachment 1 & 2; Exhibit (Motion; Answer); $5.00 fee paid and credited to U.S. Treasury; (Appearance: Nathan Lewin; 2555 M St., N.W., Suite 500, Washington, D.C. 20037, (202) 293-6400). (ml) |
| Apr 11 | 12 | MOTION by defts. for an extension of time within which to file a response to pltffs' motion for summary judgment. (ml) |
| Apr 16 | 13 | PARTIAL OPPOSITION by pltfs. to motions for extension of time to respond to motion for summary judgment. (ml) |



| DATE | NR. | PROCEEDINGS |
|---|---|---|
| 1984 | | |
| Apr 17 | | REASSIGNMENT OF CASE from Judge Sirica to Judge Gessell. (mj) |
| Apr 19 | | REASSIGNMENT of case from Judge Gesell to Judge Johnson. (md) |
| May 7 | 14 | MOTION by applicants for intervention 47th Street Photo, Inc. for a thirty-day response period to pltffs' motion for summary judgment; memorandum in support. (ml) |
| May 9 | 15 | OPPOSITION by pltf. to 5-7-84 motion of 47th Street Photo. (ml) |
| May 10 | 16 | MOTION by applicant for intervention K-Mart Corporation for a thirty-day period to respond to pltffs' motion for summary judgment; memorandum in support. (ml) |
| May 11 | 17 | OPPOSITION by pltffs. to motion of K Mart for extension of time. (ml) |
| May 14 | 18 | MOTION of Progress Trading Company, Inc., for leave to file a Brief Amicus Curiae; Memorandum; Exhibit (Brief of Amicus Curiae Progress Trading Company, Inc., in opposition to pltfs' motion for summary judgment). (nb) |
| May 16 | 19 | ORDER filed 5/14/84 setting status call on 5/18/84 at 10:15 and directing counsel to comply with certain requirements. (N) JOHNSON, J. (mj) |
| May 16 | 20 | OPPOSITION by defts. to pltf's motion for summary judgment and cross-motion for summary judgment; statement of material facts; collective Exhibit 1 & 2; response to pltf's statement of material facts; Exhibit A; memorandum in support; table of contents; table of authorities; Exhibit A. (ml) "Let this be filed." (fiat) JOHNSON, J. (ml) |

| DATE | NR. | PROCEEDINGS |
|---|---|---|
| 1984 | | |
| May 18 | 21 | ORDER filed 5-16-84 granting motion of defts. for extension of time; and allowing defts. until 5-14-84 to file their response to pltfs' motion for summary judgment. (N) JOHNSON, J. (ml) |
| May 18 | | STATUS CALL: Motion of K-Mart to intervene as deft., granted. Motion of 47th Street Photo to intervene as deft., granted. Motion of Progress Trading Co., to file brief as amicus curiae, not ruled on. Motion of American Free Trade Association to file brief as amicus curiae, not ruled on pltf. will be allowed time to answer. K-Mart and 47th Street Photo are to answer pltfs motion for summary judgment and answer the complaint by 6-15-84. Pltf allowed until 7-2-84 to reply to all answers to Pltfs motion. Deft allowed 2 weeks thereafter to reply to Pltfs reply. Amicus brief of American Free Trade is to be filed by 6-15-84. Hearing on motions will probably be set in August. Parties are to confer and submit 3 convenient dates for the hearing to the Court. (Rep: Gloria Williams) JOHNSON, J. (nb) |
| May 18 | 22 | ORDER Granting motion of K-Mart Corporation to interevene. (N) JOHNSON, J. (nb) |
| May 18 | 23 | ANSWER by intervenor K-Mart Corporation to the amended complaint. (ml) |
| May 18 | 24 | MOTION by intervenor K-Mart Corporation for an extension of time to file its response to pltfs' motion for summary judgment; memorandum in support; Exhibit A. (ml) |
| May 23 | 25 | ORDER filed 5-18-84 granting motion of 47th Street Photo for leave to intervene. (N). JOHNSON, J. (ml) |



| DATE | NR. | PROCEEDINGS |
|---|---|---|
| 1984 | | |
| May 23 | 26 | ANSWER by intervenor 47th Street Photo to amended complaint. (ml) |
| May 23 | 27 | MOTION by intervenor 47th Street Photo for extension of time to respond to motion for summary judgment. (ml) |
| Jun 15 | 28 | OPPOSITION by intervenor K Mart Corporation to pltffs' motion for summary judgment and cross-motion for summary judgment; statement of material facts; response to pltfs' statement of material facts; memorandum in support; table of contents; table of authorities; Exhibits A thru C; Attachments 1 thru 7. (ml) |
| Jun 15 | 29 | MOTION by four american consumers, Andy Shafer, Herbert Silver, Harry Herslos and Charles J. Linahan, Jr. for leave to participate as amici curiae; memorandum in support; Exhibit (Memorandum in Opposition). (ml) |
| Jun 18 | 30 | MOTION by intervenor 47th Street Photo, Inc. for three-day extension of time; Exhibits (Motion to Dismiss; Opposition; Motion to Strike). (ml) |
| Jun 21 | 31 | ORDER filed 6-20-84 granting motion of intervenor 47th Street Photo for extension of time; and allowing 47th Street Photo until 6-18-84 in which to file its motion to dismiss, its opposition to motion for summary judgment and its motion to strike. (N) JOHNSON, J. (ml) |
| Jun 21 | 32 | MOTION (filed 6-18-84) by intervenor deft. 47th Street Photo, Inc. to dismiss; memorandum in support; Exhibit A & B. (ml) |

| DATE | NR. | PROCEEDINGS |
|---|---|---|
| 1984 | | |
| Jun 21 | 33 | MEMORANDUM (filed 6-18-84) by intervenor deft. 47th Street Photo, Inc. in opposition to pltffs' motion for summary judgment; statement of genuine issues; Appendix of materials in support; table of contents. (ml) |
| Jun 21 | 34 | MOTION (filed 6-18-84) by intervenor deft. 47th Street Photo, Inc. to strike portions of the pltf's sworn statements; memorandum in support. (ml) |
| Jun 21 | 35 | MOTION by The American Free Trade Association for leave to file brief as amicus curiae; Exhibit (Appearance; Brief). (ml) |
| Jun 27 | 36 | APPEARANCE of the firm of Steele, Simmons & Fornaciari as counsel for K-Mart Corporation in lieu of Howrey & Simon. (ml) |
| Jul 2 | 37 | MOTION by pltffs. for leave to file a memorandum that exceeds 45 pages; Exhibits (Oppositions). (ml) |
| Jul 2 | 38 | OPPOSITION by pltfs. to motion to strike. (ml) |
| Jul 6 | 39 | ORDER filed 7-5-84 granting motion of pltfs. for leave to file a memorandum that exceeds 45 pages. (N) JOHNSON, J. (ml) |
| Jul 6 | 40 | OPPOSITION by pltffs. to cross-motions for summary judgment. (ml) |
| Jul 6 | 41 | OPPOSITION by pltffs. to motion to dismiss. (ml) |
| Jul 6 | 42 | REPLY MEMORANDUM by pltffs. in support of motion for summary judgment and memorandum in opposition to defts' and intervenors' motions for summary judgment and to dismiss; table of contents; table of authorities; Appendix V. (ml) |



| DATE | NR. | PROCEEDINGS |
|---|---|---|
| 1984 | | |
| Jul 6 | 43 | NOTICE by pltffs. of filing corrected pages to pltffs' reply memorandum in support of their motion for summary judgment and in opposition to defts' and intervenors' motions for summary judgment and to dismiss; pages 36, 37 & 42. (ml) |
| Jul 11 | 44 | CONSENT MOTION by K Mart & 47th Street Photo to respond to reply memorandum for pltffs. in support of their motion for summary judgment and memorandum in opposition to defts and intervenors' motions for summary judgment and to dismiss. (ml) |
| Jul 13 | 45 | CONSENT ORDER Permitting Additional Time for K-Mart and 47th St., Photo 7 days in which to respond to the Memorandum of pltfs entitled "Reply Memorandum for pltfs in support of their motion for Summary Judgment and Memorandum in opposition to defts' and intervenors motions for Summary Judgment and to dismiss to and including July 23, 1984. (N) C.J. ROBINSON (nb) |
| Jul 16 | 46 | REPLY by defts'. to "pltfs'. reply memorandum for pltfs'. in support of their motion for summary judgment and memorandum in opposition to defts'. and intervenors' motions for summary judgment and to dismiss."; table of contents; table of authorities. (dc) |
| July 23 | 47 | MEMORANDUM by intervenor deft. 47th Street Photo, Inc., in reply to pltfs'. memorandum in opposition to defts'. and intervenors'. motions for summary judgment and to dismiss; appendix 1. (dc) |
| July 23 | 48 | REJOINDER by intervenor deft. K Mart to pltfs'. July 2, 1984 reply memorandum; table of contents; table of authorities. (dc) |

| DATE | NR. | PROCEEDINGS |
|---|---|---|
| 1984 | | |
| July 23 | 49 | NOTICE OF FILING by Intervenor 47th Street Photo, Inc. of the declaration of Irving Goldstein which shall be filed with brief of June 18, 1984; attachment. (dc) |
| Sep 19 | | MOTION of Progress Trading for leave to file a brief amicus curiae, granted; motion by American Four Consumers for leave to participate as amici curiae, granted; motion of American Free Trade Association for leave to file a brief as amicus curiae, granted; motion of 47th Street Photo to strike, denied; motion of pltf. for summary judgment heard and taken under advisement; cross-motion of the U.S. for summary judgment heard and taken under advisement; motion of 47th Street Photo to dismiss heard and taken under advisement; cross-motion of K-Mart for summary judgment heard and taken under advisement. (Rep. G. Williams) JOHNSON, J. (ml) |
| Sep 21 | 50 | ORDER filed 9-19-84 granting American Free Trading Association leave to file brief as amicus curiae. (N) JOHNSON, J. (ml) |
| Sep 21 | 51 | ORDER filed 9-19-84 granting Progress Trading Co., Inc. motion for leave to file a brief amicus curiae in opposition to pltfs' motion for summary judgment. (N) JOHNSON, J. (ml) |
| Sep 21 | 52 | ORDER filed 9-19-84 granting motion of Four American Consumers for leave to participate as amici curiae. (N) JOHNSON, J. (ml) |
| Sep 21 | 53 | BRIEF by amicus curiae Progress Trading Company, Inc. in opposition to pltfs' motion for summary judgment; table of contents; table of authorities; Exhibits 1 thru 15. (ml) |



| DATE | NR. | PROCEEDINGS |
|---|---|---|
| 1984 | | |
| Sep 21 | 54 | MEMORANDUM by Four American Consumers as amici Curiae in opposition to pltfs' motion for summary judgment; table of contents; table of cases and authorities; Exhibits A thru D; affidavit of Andy Shafer; affidavit of Herbert Silver; affidavit of Harry Herslof; affidavit of Charles J. Linahan. (ml) |
| Sep 21 | 55 | APPEARANCE of Bernard Fensterwald, III on behalf of amicus curiae American Free Trade Association. (1000 Wilson Blvd., Suite 900, Arlington, VA. 22209, (703) 276-9297). (ml) |
| Sep 21 | 56 | BRIEF by American Free Trade Association as amicus curiae; table of contents; table of authorities; Addendum; Exhibit 1. (ml) |
| Sept 24 | 57 | ORDER filed 9/20/84 denying motion of 47th Street Photo, Inc., to strike portions of the pltfs. sworn statements. (N) JOHNSON, J. (mj) |
| Dec 10 | 58 | MEMORANDUM OPINION & ORDER filed 12/5/84 denying intervenor-deft. 47th Street Photo's motion to dismiss for lack of subject matter jurisdiction; granting intervenor-deft. 47th Street Photo's motion to dismiss for failure to state a claim under section 42 of the Lanham Act; dismissing pltffs claims under section 42 of the Lanham Act; denying pltffs motion for summary judgment; granting federal defts motion for summary judgment; granting intervenor-deft K-Mart Corp's motion for summary judgment; entering judgment for defts. on the merits of pltffs claim under section 526 of the Tariff Act. (N) (See memo. for details) JOHNSON, J. (ew) |

| DATE | NR. | PROCEEDINGS |
|---|---|---|
| 1984 | | |
| Dec 11 | 59 | NOTICE of appeal by pltffs. from judgment entered 12/5/84; $5.00 filing fee and $65.00 docketing fee paid and credited to U.S. Copy of notice mailed to Velta A. Melbrencis, Robert W. Steele, and Nathan Lewis. (ew) |
| Dec 12 | | PRELIMINARY RECORD transmitted to USCA; USCA 84-5890 |



UNITED STATES COURT OF APPEALS
FOR THE DISTRICT OF COLUMBIA CIRCUIT

84-5890

APPEAL FROM THE DISTRICT COURT

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*,
*Appellants*

v.

UNITED STATES OF AMERICA, *et al.*

GENERAL DOCKET

| DATE | FILINGS—PROCEEDINGS |
|---|---|
| (C) 12-28-84 | Copy of notice of appeal and docket entries from DC (n-4) |
| (C) 12-28-84 | Docketing fee paid in DC on 12/11/84 |
| (C) 12-28-84 | Docketing statement mailed to counsel for appellants |
| (J) 01-09-85 | 4-Appellants' docketing statement (m-9) |
| (J) 02-01-85 | Clerk's order that a briefing schedule is set as follows: Appellants' brief and joint appendix—03-18-85; Appellees' brief(s)—04-17-85; Appellants' reply brief, if any—05-01-85. Based upon the foregoing schedule, the Clerk shall include this case in the pool of cases that are available for selection on this Court's September/October, 1985 calendar. |
| (R) 03-20-85 | 25-Appellants' brief (p-18) |
| (R) 03-20-85 | 10-Joint appendix (vols. 1-2) (p-18) |

| DATE | FILINGS—PROCEEDINGS |
| --- | --- |
| (R) 04-11-85 | 4-Appellees' (K-Mart) motion for leave to file out of time motion for extension of time to file brief (m-11) [6] |
| (R) 04-11-85 | 4-Appellees' (47th St. Photo, Inc.) motion for leave to file out of time motion for extension of time to file brief (m-11) [6] |
| (R) 04-11-85 | 4-Appellees' (DOJ) motion for leave to file out of time motion for extension of time to file brief (m-11) [6] |
| (R) 04-16-85 | Consent letter signed by counsel for both appellant and appellee for American Free Trade Association to file a brief as amicus curiae (m-15) |
| (R) 04-16-85 | 15-Amicus curiae (American Free Trade Assn.) brief (m-15) |
| (R) 04-17-85 | Consent letter from counsel signed by both appellant and appellee for Progress Trading Co., Inc. to participate as amicus curiae (p-17) |
| (R) 04-17-85 | 15-Amicus curiae brief (Progress Trading Co., Inc.) (p-17) |
| (E) 04-16-85 | Clerk's order granting appellees' motions to extend briefing time, and the briefing schedule is revised as follows: Appellees' brief—May 17, 1985 and Appellant's reply brief, if any—May 31, 1985. This disposition will not affect the calendaring of the instant case. (Leave to file the instant motions is granted.) |
| (E) 04-16-85 | 4-Appellee's (47th Street Photo, Inc.) motion for extension of time to file brief—GRANTED. (m-11) |
| (E) 04-16-85 | 4-Appellee's (Federal) motion for extension of time to file brief—GRANTED. (m-11) |



| DATE | FILINGS—PROCEEDINGS |
| --- | --- |
| (E) 04-16-85 | 4-Appellee's (K-Mart) motion for extension of time to file brief—GRANTED. (m-11) |
| (R) 05-17-85 | 15-Appellee's (K-Mart) brief (p-17) |
| (R) 05-17-85 | 15-Appellee's (47th St. Photo) brief (m-17) |
| (R) 05-17-85 | 15-Appellee's (DOJ) brief (m-17) |
| (R) 05-30-85 | 4-Appellants' motion for leave to file unopposed extension of time to file brief (p-30) [6] |
| (E) 05-31-85 | Clerk's order granting appellant's motion to extend briefing time, and the briefing schedule is revised as follows: Appellant's reply brief, if any—June 5, 1985. This disposition will not affect the calendaring of the instant case. (Leave to file the instant motion is hereby granted.) |
| (E) 05-31-85 | 4-Appellant's motion to extend time to file reply brief—GRANTED. (m-30) |
| (R) 06-05-85 | 15-Appellant's reply brief (m-5) |
| (R) 08-27-85 | 4-Letter from counsel for appellee (47th St. Photo) advising of additional authorities pursuant to FRAP 28(j) (m-26) [19] |
| (E) 12-31-85 | Clerk's order, sua sponte, that the following times are allotted for oral argument: Coalition to Preserve the Integrity of American Trademarks, Appellants—30 minutes; United States, Appellee—15 minutes; 47th Street Photo Co., Appellee—7½ minutes and K-Mart Co., Appellee—7½ minutes. |
| (J) 01-13-86 | CERTIFIED ORIGINAL RECORD (4 volumes); 3 exhibits in brown expandable folder |
| (T) 01-13-86 | 15-APPELLANTS' SUPPLEMENTAL BRIEF (m-13) [25] |

| DATE | FILINGS—PROCEEDINGS |
|---|---|
| (E) 01-17-86 | Per curiam order that the motion of 47th Street Photo, Inc. for leave to file supplemental brief, one day out of time, is granted. The Clerk is directed to file said supplemental brief. Mikva, Bork and Silberman, CJs. |
| (E) 01-17-86 | 15-SUPPLEMENTAL BRIEF OF APPELLEE'S (47th St. Photo) (p-16) |
| (E) 01-16-86 | 4-Appellee's (47th St. Photo) motion to file supplemental brief one day out of time (p-16) [#8] |
| (F) 01-22-86 | ARGUED before Mikva, Bork & Silberman, CJs BIN [52-3] |
| (T) 01-31-86 | 4-Letter from counsel for appellee (47th Street Photo) advising of additional authorities pursuant to FRAP 28(j) (m-31) [8] |
| (D) 05-06-86 | Opinion for the Court filed by Circuit Judge Silberman. |
| (D) 05-06-86 | Judgment by this Court that the judgment of the District Court appealed from in this cause is hereby reversed and this case is remanded, in accordance with the Opinion for the Court filed herein this date. |
| (D) 05-06-86 | Mandate order. |
| (J) 05-12-86 | 4-Appellant's bill of costs (m-12) (9) |
| (E) 06-20-86 | 15-Appellees' (US) petition for rehearing and suggestion for rehearing en banc (m-20) [#1] |
| (E) 06-20-86 | 15-Appellee's (47th Street Photo, Inc.) petition for rehearing and suggestion for rehearing en banc (m-20) [#1] |
| (E) 06-20-86 | 15-Appellee's (K-Mart Corporation) petition for rehearing and suggestion for rehearing en banc (m-20) [#1] |
| (E) 06-24-86 | 4-Appellees' (US) motion for leave to substitute petition for rehearing (p-24) |



| DATE | FILINGS—PROCEEDINGS |
|---|---|
| (E) 06-25-86 | Clerk's order granting appellees' motion for leave to file a substituted petition for rehearing. The Clerk is directed to file the lodged substituted petition for rehearing. |
| (E) 06-25-86 | 15-Appellees' (US) substituted petition for rehearing and suggestion for rehearing en banc (p-24) [#1] |
| (R) 06-24-86 | 4-Appellees' motion for leave to substitute their petition for rehearing (m-24) [1] |
| (T) 06-30-86 | 15-Motion of Amicus Curiae American Free Trade Association for leave to file brief in support of petitions for rehearing with suggestion for rehearing en banc (m-27) [1] |
| (E) 07-18-86 | Per curiam order, en banc, granting the motion of the American Free Trade Association for leave to file a brief amicus curiae in support of the petitions for rehearing and suggestions for rehearing en banc, and the Clerk is directed to file the lodged brief of amicus curiae. CJ Robinson, Wald, Mikva, Edwards, Ginsburg, Bork, Scalia, Starr, Silberman, Buckley and Williams, CJs. |
| (E) 07-18-86 | 15-AMICUS CURIAE BRIEF OF THE AMERICAN FREE TRADE ASSOCIATION (in support of the petitions for rehearing and suggestions for rehearing en banc) (m-30) |
| (E) 07-18-86 | Per curiam order that the petitions for rehearing of the United States, K-Mart Corporation and 47th Street Photo, Inc., are denied. Mikva, Bork and Silberman, CJs. |
| (E) 07-18-86 | Per curiam order, en banc, that the suggestions for rehearing en banc of the United States, K-Mart Corporation and 47th Street |

| DATE | FILINGS—PROCEEDINGS |
|---|---|
| | Photo, Inc. are denied. CJ Robinson, Wald, Mikva, Edwards, Ginsburg, Bork, Scalia, Starr, Silberman, Buckley and Williams, CJs. (Scalia and Williams, CJs, did not participate in this order.) |
| (R)07-23-86 | 4-Petition of K Mart Corporation for stay of mandate (p-23) [1] |
| (R)07-24-86 | 4-Petition of Defendants-Appellees for a stay of the issuance of the mandates (p-24) [1] |
| (R)07-28-86 | 4-Appellant's oposition to petition of apellees for a stay of the issuance of the mandate (m-28) [1] |
| (R)07-31-86 | 4-Reply of K Mart Corporation in support of its petition for stay of mandates [1] |
| (E)08-06-86 | Per curiam order granting the motions for stay of issuance of the mandate. The Clerk is directed to withhold issuance of this Court's mandate through September 30, 1986. Mikva, Bork and Silberman, CJs. |
| (R)09-26-86 | Certified copy of Notice from Supreme Court in SC No. 86-495 dated 9/26/86 that a petition for writ of certiorari is pending [1] |
| (R)10-02-86 | Notice from Clerk, SC advising that petition for certiorari was filed in SC No. 86-495 on 9-26-86 [1] |
| (R)10-23-86 | Notice from Clerk, Supreme Court advising that petition for writ of certiorari was filed in SC No. 86-625 on 10-16-86 [1] |



[Articles 475-80 of the Customs Regulations of 1923, T.D. 40,380]

## TRADE-MARKS AND TRADE NAMES.

**Act Feb. 20, 1905, sec. 27; act May 4, 1906, sec. 3; act Mar. 19, 1920, sec. 6; tariff act of 1922, sec. 526(a). T.Ds. 26198, 27416, 29975, 37021, 38035.**

Art. 475. **Prohibition of entry.**—Entry is prohibited by imported merchandise which shall copy or simulate the name of any domestic manufacture or manufacturer or trader, or of any manufacturer or trader located in any foreign country which, by treaty, convention, or law affords similar privileges to citizens of the United States, or which shall copy or simulate a trade-mark registered in accordance with the provisions of the acts approved February 20, 1905, May 4, 1906, and March 19, 1920, or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States or that it is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured.

**T.D. 26198.**

Art. 476. **Trade-marks—Registration.**—Domestic or foreign manufacturers or traders, to avail themselves of the privileges of the law concerning trade-marks, are required to register their trade-marks with the Commissioner of Patents before the Treasury Department can act.

**T.D. 38035.**

Applications for the recording of trade-marks with the Treasury Department must state the name of the owner, his residence, and the locality in which the goods are

manufactured, and be accompanied with one certified copy of the certificate of registration issued by the Commissioner of Patents in accordance with the act of February 20, 1905. The application will also state the names of the ports to which the facsimiles are to be sent and be accompanied by one uncertified printed Patent Office copy (commonly known as "soft copy") of the statement and two facsimiles for each port mentioned in the application and five additional copies for the use of the department.

**Sec. 526, tariff act 1922.**

Trade-marks owned by an American citizen or by a corporation or association created or organized within the United States are entitled to the protection of section 526 of the tariff act of 1922 if the mark has been registered in the United States Patent Office by a person (corporation or association) domiciled in the United States, or where trade-mark rights have been acquired by assignment, subsequent to original registration, by a person (corporation or association) domiciled in the United States, if the assignment has been recorded in the Patent Office, as required in section 10 of the trade-mark act of February 20, 1905, and if the mark in either case is also recorded in the Treasury Department under section 27 of the trade-mark act of 1905. If the trade-mark has been acquired by assignment there shall be transmitted to the Treasury Department with the application for recording, in addition to the documents and information specified in the preceding article of these regulations, a certified abstract of title from the records of the United States Patent Office showing the title to the mark to be in the applicant or person in whose behalf the application is made.

Art. 477. **Trade names—Registration.**—To register the trade name (not a trade-mark) of a domestic manufacturer or trader, the application must be made to the



Treasury Department, and be accompanied by proof that the applicant has the sole and exclusive right to the use of such trade name, and a statement of the country or locality in which his goods are manufactured, which proof shall be in the form of affidavits by the owner or owners and other persons having knowledge of the facts.

Such applications should state the names of the ports of entry at which the trade name is to be recorded.

Affidavits accompanying applications to record the trade names of manufacturers or traders located in foreign countries should be acknowledged before an American consular officer.

**T.D. 26198.**

Art. 478. **Illegal importations.**—The collector, upon receiving notice from the department of the recording of a trade name or trade-mark, together with facsimile copies thereof, will issue instructions to prevent the unauthorized entry at the customhouse of articles bearing marks or names or simulating the same.

No fees are charged for recording trade-marks or trade names in the Treasury Department.

**Act of Feb. 20, 1905, sec. 27.**
**T.D. 26198.**

Art. 479. **Name or marking inducing belief of American manufacture.**—Especial attention is invited to the prohibition against entry of articles which "shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States, or that it is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured," and collectors and other officers of the customs are instructed to use diligence to prevent violations of this provision.

**Tariff act of 1922, 526.**
**T.D. 19265.**

Art. 480. **Detention—Seizure—Exportation.**—Customs officers will detain, but not seize, articles imported in violation of the trade-mark act of February 20, 1905. Such articles may, upon the request of the importer, be exported under customs supervision. If no request is made for permission to export, the collector will report the facts to the department for instructions.

Should the violation not be discovered until after entry and payment of duty, the entry may be canceled and the duty refunded upon exportation of the articles. Articles imported in violation of the trade-mark provisions of section 526 of the tariff act will be subject to seizure. Importation may be allowed when written consent of the owner of the trade-mark is produced.



[Articles 517-22 of the Customs Regulations of 1931]

## TRADE-MARKS AND TRADE NAMES

Art. 517. **Unlawful importation.**—(*a*) Tariff act of 1930, section 526:

(a) It shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trade-mark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent Office by a person domiciled in the United States, under the provisions of the Act entitled "An Act to authorize the registration of trade-marks used in commerce with foreign nations or among the several States or with Indian tribes, and to protect the same," approved February 20, 1905, as amended, and if a copy of the certificate of registration of such trade-mark is filed with the Secretary of the Treasury, in the manner provided in section 27 of such Act, unless written consent of the owner of such trade-mark is produced at the time of making entry.

(b) Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

(c) Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trade-mark and shall be liable for the same damages and profits provided for wrongful use of a trade-mark, under the provisions of such Act of February 20, 1905, as amended.

(*b*) United States Code, title 15, section 106:

No article of imported merchandise which shall copy or simulate the name of any domestic manufacture, or manufacturer or trader, or of any manufacturer or trader

located in any foreign country which, by treaty, convention, or law affords similar privileges to citizens of the United States, or which shall copy or simulate a trade-mark registered in accordance with the provisions of this subdivision of this chapter, or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States, or that it is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured, shall be admitted to entry at any customhouse of the United States, and, in order to aid the officers of the customs in enforcing this prohibition, any domestic manufacturer or trader, and any foreign manufacturer or trader, who is entitled under the provisions of a treaty, convention, declaration, or agreement between the United States and any foreign country to the advantages afforded by law to citizens of the United States in respect to trade-marks and commercial names, may require his name and residence, and the name of the locality in which his goods are manufactured, and a copy of the certificate of registration of his trade-mark, issued in accordance with the provisions of this subdivision of this chapter, to be recorded in books which shall be kept for this purpose in the Department of the Treasury, under such regulations as the Secretary of the Treasury shall prescribe, and may furnish to the department facsimiles of his name, the name of the locality in which his goods are manufactured, or of his registered trade-mark; and thereupon the Secretary of the Treasury shall cause one or more copies of the same to be transmitted to each collector or other proper officer of customs. (Feb. 20, 1905. c. 592, sec, 27, 33 Stat. 730.)

**Act. Mar. 19, 1920 (U.S.C., title 15, sec. 126.)**

(The foregoing section is applicable to marks placed on the international register provided for by section 1 of the act of March 19, 1920.) (U.S. Code, title 15, sec. 121.)



(*c*) United States Code, title 15, section 132:

Any owner of a trade-mark who shall have a manufacturing establishment within the territory of the United States shall be accorded, so far as the registration and protection of trade-marks used on the products of such establishments are concerned, the same rights and privileges that are accorded to owners of trade-marks domiciled within the territory of the United States by sections 81 to 109, inclusive, of this chapter. (May 4, 1906, c. 2081, sec. 3, 34 Stat. 169.)

**T.Ds. 26198, 27416, 29975, 37021, 38035, 40380.**

Art. 518. (*a*) **Prohibition of entry.**—Entry is prohibited of imported merchandise bearing a genuine trade-mark when such trade-mark is recorded with the Treasury Department and registered under the trade-mark law of February 20, 1905, if compliance is had with all provisions of section 526 of the tariff act of 1930, provided the period of protection for such trade-mark has not expired.

**T.D. 41991.**

(*b*) Trade-marks registered under the act of March 19, 1920, are not entitled to the protection of section 526 of the tariff act of 1930, and accordingly, goods bearing a genuine trade-mark, although registered under the act of March 19, 1920, will be permitted importation.

**T.D. 26198.**

Art. 519. **Trade-marks—Recording**—(*a*) Domestic or foreign manufacturers or traders, to avail themselves of the privileges of the law concerning trade-marks, are required to register their trade-marks with the Commissioner of Patents before the Treasury Department can act.

**T.D. 38035.**

(*b*) Applications for the recording of trade-marks with the Treasury Department should be addressed to "The Treasury Department, Bureau of Customs, Washington,

D.C.," and must state the name of the owner, his residence, and the locality in which the goods are manufactured, and be accompanied by one certified copy of the certificate of registration issued by the Commissioner of Patents in accordance with the act of February 20, 1905. The application should also be accompanied by five uncertified printed Patent Office copies (commonly known as "soft copy") of the statement and five facsimiles for the use of the bureau. No fees are charged for recording trade-marks.

(*c*) Trade-marks owned by an American citizen or by a corporation or association created or organized within the United States are entitled to the protection of section 526 of the tariff act of 1930 if the mark has been registered in the United States Patent Office by a person (corporation or association) domiciled in the United States, or where trade-mark rights have been acquired by assignment, subsequent to original registration, by a person (corporation or association) domiciled in the United States, if the assignment has been recorded in the Patent Office, as required in section 10 of the trade-mark act of February 20, 1905, and if the mark in either case is also recorded in the Treasury Department under section 27 of the trade-mark act of 1905. If the trade-mark has been acquired by assignment there shall be transmitted to the Treasury Department with the application for recording, in addition to the documents and information specified in paragraph (*b*) of this article, a certified abstract of title from the records of the United States Patent Office showing the title to the mark to be in the applicant or person in whose behalf the application is made.

**T.D. 40380.**

Art. 520. **Trade names—Registration.**—(*a*) To register the trade name (not a trade-mark) of a domestic manufacturer or trader, the application must be made to the Treasury Department, Bureau of Customs, Washington, D.C., and be accompanied by proof that the applicant



has the sole and exclusive right to the use of such trade name, and a statement of the country or locality in which his goods are manufactured, which proof shall be in the form of affidavits by the owner or owners and other persons having knowledge of the facts. No fees are charged for registering trade names.

(*b*) Affidavits accompanying applications to record the trade names of manufacturers or traders located in foreign countries should be acknowledged before an American consular officer.

Art. 521. **Publication of notices—Action by collectors.**—(*a*) The recording of trade-marks and the registration of trade names with the Treasury Department will be published hereafter in the weekly Treasury Decisions which will constitute notice to collectors and others concerned that such marks or names are to receive the protection accorded by law against unauthorized importations.

**T.D. 26198.**

(*b*) The collector, upon receiving notice from the department either by letter or by publication in the weekly Treasury Decisions of the recording of a trade-mark or the registration of a trade name, will issue instructions to prevent the unauthorized entry at the customhouse of articles bearing such marks or names or simulating the same.

**T.D. 19265.**

Art. 522. **Detention—Seizure—Exportation.**—(*a*) Customs officers shall detain, but not seize, articles imported in violation of the trade-mark act of February 20, 1905. Such articles may be exported under customs supervision upon the request of the importer and at his expense. If no request to export the articles is received within 30 days from the date of notice to the importer that the articles are prohibited importation, the said articles shall be seized and forfeited in the usual manner.

(*b*) Articles bearing genuine trade-marks entitled to protection under section 526 of the tariff act, if not imported by the trade-mark owner or with his written consent filed at the time of entry, shall be detained, but not seized, until 30 days have elapsed from the date of notice to the importer that the articles are prohibited importation. If the written consent of the trade-mark owner to the importation of the articles is not received within that time, the articles shall be seized and forfeited in the usual manner. Upon petition to the bureau the forfeiture may be remitted upon the condition that the articles be exported under customs supervision at the expense of the importer.

(*c*) When articles seized under the act of 1905 or under section 526 of the tariff act have been duly forfeited, the facts in the case shall be reported to the bureau for instructions as to the proper disposition of the said articles.

(*d*) Should the violation not be discovered until after entry and payment of duty, the entry may be canceled and the duty refunded and the articles disposed of in accordance with the foregoing provisions of this article.



(T.D. 48537 [1936])

*Customs regulations amended—Trade-marks and trade names*

Articles 518 and 522, Customs Regulations of 1931, amended to authorize, in certain cases, the release or exportation of merchandise detained for violation of trade-mark laws

TREASURY DEPARTMENT,
OFFICE OF THE COMMISSIONER OF CUSTOMS,
*Washington, D.C.*

*To Collectors of Customs and Others Concerned:*

Pursuant to the authority contained in section 251, Revised Statutes (U.S.C. title 19, sec. 66), section 27 of the Trade-Mark Act of 1905 (U.S.C. title 15, sec. 106), section 6 of the Trade-Mark Act of 1920 (U.S.C. title 15, sec. 126), and sections 526 and 624 of the Tariff Act of 1930 (U.S.C. title 19, secs. 1526 and 1624), articles 518 and 522 of the Customs Regulations of 1931 are amended to read as follows:

*Art. 518. Prohibition of importation.*—(*a*) Merchandise of foreign or domestic manufacture is prohibited importation when it bears a name or mark which copies or simulates a trade-mark or trade name entitled to the protection of the Trade-Mark Act of 1905 or the Trade-Mark Act of 1920, unless such merchandise is imported by or for the account of, or with the written consent of, the owner of the protected trade-mark or trade name.

(*b*) A name or mark (including a name or mark which is a genuine trade-mark or trade name in a foreign country) on an article of foreign manufacture identical with a trade-mark or trade name protected by the trade-mark laws of the United States, as well as a name

or mark on an article of foreign or domestic manufacture counterfeiting such protected trade-mark or trade name, or so resembling such protected trade-mark or trade name as to be likely to cause confusion or mistake in the minds of the public or to deceive purchasers, shall be deemed for the purposes of these regulations to copy or simulate such protected trade-mark or trade name. However, merchandise manufactured or sold in a foreign country under a trade-mark or trade name, which trade-mark is registered and recorded, or which trade name is recorded under the trade-mark laws of the United States, shall not be deemed for the purpose of these regulations to copy or simulate such United States trade-mark or trade name if such foreign trade-mark or trade name and such United States trade-mark or trade name are owned by the same person, partnership, association, or corporation.

Add "*Bourjois & Co.* v. *Aldridge* (1923), 263 U. S. 675" as a marginal reference to article 518 (*b*), as amended.

*Art. 522. Detention—Seizure—Exportation—Release.*—(*a*) Merchandise of foreign manufacture which bears a trade-mark entitled to the protection of section 526 of the Tariff Act of 1930, and merchandise which bears a name or mark copying or simulating a trade-mark or trade name entitled to the protection of section 27 of the Trade-Mark Act of 1905, or section 6 of the Trade-Mark Act of 1920, if not imported by or for the account of, or with the appropriate written consent of, the owner of the United States trade-mark or trade name, shall be detained, but not seized, until thirty days have elapsed from the date of notice to the importer that the merchandise is prohibited importation.

(*b*) Whenever merchandise is detained in accordance with the foregoing provisions of this article and the written consent of the owner of the trade-mark or trade name to the importation of the merchandise is not presented to the collector prior to the expiration of the 30-day period, the merchandise shall be seized and forfeited in the usual manner, except that in any such case if the foreign value does not exceed $100 and the collector is satisfied that the importation involved neither wilful negligence nor any intention to defraud the revenue or to violate the law, he may release the merchandise, without formal seizure and without referring the matter to the Bureau, upon the condition that, within thirty days from the date of the collector's decision, the name, mark, or trade-mark be removed or obliterated prior to the release, or the merchandise be exported under customs supervision and without expense to the Government. If the value exceeds $100, the importer may petition the Commissioner of Customs, through the collector, for the release of or permission to export the merchandise under the same conditions. (See article 1120.) In any such case, however, if the name, mark, or trade-mark is indelibly impressed upon the merchandise or upon the immediate container thereof and it is impracticable to remove or obliterate the same, such merchandise may be destroyed or exported under customs supervision and at the expense of the importer, or if the immediate container alone bears the name, mark, or trade-mark the merchandise may be released after the container has been so destroyed or exported.

(*c*) Merchandise forfeited for violation of any trade-mark law may be disposed of in accordance with the procedure applicable to other customs forfeitures, but only after removal or obliteration of the name, mark, or trade-mark by reason of which the goods were seized.

(*d*) If the violation is not discovered until after entry and deposit of estimated duty, the entry shall be endorsed with an appropriate notation, the duty refunded as an erroneous collection, and the merchandise disposed of in accordance with the foregoing provisions of this article.

JAMES H. MOYLE,
*Commissioner of Customs.*

Approved September 22, 1936:

WAYNE C. TAYLOR,
*Acting Secretary of the Treasury.*

(Filed with the Division of the Federal Register September 29, 1936, 1:04 p.m.)

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[Articles 536-41 of the Customs Regulations of 1937]

## TRADE-MARKS AND TRADE NAMES

Art. 536. **Unlawful importation.**—(*a*) Tariff Act of 1930, section 526:

(a) It shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trade-mark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent Office by a person domiciled in the United States, under the provisions of the Act entitled "An Act to authorize the registration of trade-marks used in commerce with foreign nations or among the several States or with Indian tribes, and to protect the same", approved February 20, 1905, as amended, and if a copy of the certificate of registration of such trade-mark is filed with the Secretary of the Treasury, in the manner provided in section 27 of such Act, unless written consent of the owner of such trade-mark is produced at the time of making entry.

(b) Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

(c) Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trade-mark and shall be liable for the same damages and profits provided for wrongful use of a trade-mark, under the provisions of such Act of February 20, 1905, as amended.

(*b*) United States Code, title 15, section 106:

No article of imported merchandise which shall copy or simulate the name of any domestic manufacture, or manufacturer or trader, or of any manufacturer or trader located in any foreign country which, by treaty, conven-

tion, or law affords similar privileges to citizens of the United States, or which shall copy or simulate a trade-mark registered in accordance with the provisions of this subdivision of this chapter, or shall bear a name or mark calculated to induce the public to believe that the article is manufacturer in the United States, or that it is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured, shall be admitted to entry at any customhouse of the United States; and, in order to aid the officers of the customs in enforcing this prohibition, any domestic manufacturer or trader, and any foreign manufacturer or trader, who is entitled under the provisions of a treaty, convention, declaration, or agreement between the United States and any foreign country to the advantages afforded by law to citizens of the United States in respect to trade marks and commercial names, may require his name and residence, and the name of the locality in which his goods are manufactured, and a copy of the certificate of registration of his trade mark, issued in accordance with the provisions of this subdivision of this chapter, to be recorded in books which shall be kept for this purpose in the Department of the Treasury, under such regulations as the Secretary of the Treasury shall prescribe, and may furnish to the department facsimiles of his name, the name of the locality in which his goods are manufactured, or of his registered trade mark; and thereupon the Secretary of the Treasury shall cause one or more copies of the same to be transmitted to each collector or other proper officer of customs. (Feb. 20, 1905, c. 592, sec. 27, 33 Stat. 730.)

**Act, Mar. 19, 1920 (U.S.C., title 15, sec. 126.)**

(The foregoing section is applicable to marks placed on the international register provided for by section 1 of the act of Mar. 19, 1920.) (U.S. Code, title 15, sec. 121.)

(*c*) United States Code, title 15, section 132:



Any owner of a trade mark who shall have a manufacturing establishment within the territory of the United States shall be accorded, so far as the registration and protection of trade marks used on the products of such establishments are concerned, the same rights and privileges that are accorded to owners of trade marks domiciled within the territory of the United States by sections 81 to 100, inclusive, of this chapter. (May 4, 1906, c. 2081, sec. 3, 34 Stat. 169.)

(*d*) United States Code, title 48, section 1405q:

**T.D. 48498.**

* * * The laws of the United States relating to patents, trade marks, and copyrights, and to the enforcement of rights arising thereunder, shall have the same force and effect in the Virgin Islands as in the continental United States, and the District Court of the Virgin Islands shall have the same jurisdiction in causes arising under such laws as is exercised by United States district courts. (June 22, 1936, c. 699, sec. 18, 49 Stat.)

**T.Ds. 26198, 27416, 29975, 37021, 38035, 40380, 41990, 48537.**

Art. 537. **Prohibition of importation.**—(*a*) Merchandise of foreign or domestic manufacture is prohibited importation when it bears a name or mark which copies or simulates a trade mark or trade name entitled to the protection of the Trade Mark Act of 1905 or the Trade Mark Act of 1920, unless such merchandise is imported by or for the account of, or with the written consent of, the owner of the protected trade mark or trade name.

**Bourjois & Co. v. Aldridge (1923), 263 U.S. 675.**

(*b*) A name or mark (including a name or mark which is a genuine trade mark or trade name in a foreign country) on an article of foreign manufacture identical

with a trade mark or trade name protected by the trade-mark laws of the United States, as well as a name or mark on an article of foreign or domestic manufacture counterfeiting such protected trade mark or trade name, or so resembling such protected trade mark or trade name as to be likely to cause confusion or mistake in the minds of the public or to deceive purchasers, shall be deemed for the purposes of these regulations to copy or simulate such protected trade mark or trade name. However, merchandise manufactured or sold in a foreign country under a trade mark or trade name, which trade mark is registered and recorded, or which trade name is recorded under the trade-mark laws of the United States, shall not be deemed for the purpose of these regulations to copy or simulate such United States trade mark or trade name if such foreign trade mark or trade name and such United States trade mark or trade name are owned by the same person, partnership, association, or corporation.

**T.D. 26198.**

Art. 538. **Trade-marks—Recording.**—(*a*) Domestic or foreign manufacturers or traders, to avail themselves of the privileges of the law concerning trade-marks, are required to register their trade-marks with the Commissioner of Patents before the Treasury Department can act.

**T.Ds. 38035, 45658, 48787.**

(*b*) To record a trade-mark with the Treasury Department an application must be addressed to the Treasury Department, Bureau of Customs, Washington, D.C. (which may be in the form of a letter), stating therein the name, residence, and citizenship of the owner or owners (if a partnership, the citizenship of each partner; if a corporation or association, the country or state within which it was organized or created); the name of the locality in which the goods are manufactured, and the names of the ports of entry to which the applicant desires to have facsimiles of the trade-mark transmitted. The application must be accompanied by one certified copy of the original certificate of registration issued by the Commissioner of Patents in accordance with the Trade-Mark Act of February 20, 1905, or the Trade-Mark Act of March 19, 1920; such of the documents mentioned in paragraph (c) as are required to show the ownership of the applicant; three uncertified printed Patent Office facsimiles of the trade-mark for deposit in the Treasury Department, and a sufficient number of such facsimiles to enable the Bureau to forward copies to the port or ports of entry named in the application. The number of facsimiles necessary for each of the ports of entry is as follows:



*Four* facsimiles for each of the ports of New York and Chicago.

*Three* facsimiles for each of the ports of Baltimore and Boston.

*Two* facsimiles for each of the ports of Nogales, Buffalo, Tampa, Key West, Los Angeles, Portland, Me., Detroit, New Orleans, Cleveland, Cincinnati, Portland, Oreg., Philadelphia, Pittsburgh, San Antonio, San Francisco, St. Louis, St. Albans, Vt., Seattle, Milwaukee, and Saint Thomas, Virgin Islands.

*One* facsimile for each of the other ports of entry.

No fee is charged for recording trade-marks in the Treasury Department.

(*c*) If ownership of a registered trade-mark is claimed by an applicant by virtue of an assignment of such trade-mark, there must be transmitted with the application for recording, in addition to the documents and information specified in paragraph (*b*) of this article, a certified abstract of title from the records of the United States Patent Office showing the ownership of the applicant. Similar documentary evidence must accompany an application for recording if the commercial name of the applicant has been changed subsequent to registration of the trade-mark. If the application for recording is presented after the

expiration of the period for which the certificate of registration, or a renewal thereof, was issued, the application must be accompanied by a certified copy of a certificate of renewal from the United States Patent Office showing that the registration is in force. In order to continue to receive the protection of the trade-mark statutes with respect to imported merchandise, such a certified copy of a certificate of renewal must be filed with the Treasury Department if the period of protection expires after the trade-mark has been recorded.

**T.Ds. 40380, 48787.**

Art. 539. **Trade names—Recording.**—(*a*) To record the trade name (not a trade-mark) of a manufacturer or trader, an application must be addressed to the Treasury Department, Bureau of Customs, Washington, D.C. (which may be in the form of a letter), stating therein the trade name; the name, residence, and citizenship of the owner or owners (if a partnership, the citizenship of each partner; if a corporation or association, the country or state within which it was organized or created); a description of the class or kind of merchandise to which the trade name is applied, and the name of the locality in which the merchandise is manufactured. The application must be accompanied by supporting evidence, in the form of affidavits by the owner or owners and by at least two other persons having first-hand knowledge of the facts, showing that the applicant has used the trade name, in connection with the class or kind of mechandise described in the application, for a designated period of time and has the sole and exclusive right to the use of such trade name in connection with merchandise of such class or kind.

(*b*) Such affidavits accompanying an application to record the trade name of a manufacturer or trader located in a foreign country should be acknowledged before an American consular officer.

No fee is charged for recording trade names in the Treasury Department.



**T.Ds. 26198, 45658, 48787.**

Art. 540. **Notice to collectors—Action by collectors.**—Upon receiving notice from the Bureau of the recording of a trade-mark or a trade name the collector will issue appropriate instructions to prevent the unauthorized importation or entry at the customhouse of articles bearing marks or names which violate the statutory rights of the owner of the recorded trade-mark or trade name.

**T.Ds. 19265, 47691, 48537.**

Art. 541. **Detention—Seizure—Exportation—Release.**—(*a*) Merchandise of foreign manufacture which bears a trade mark entitled to the protection of section 526 of the Tariff Act of 1930, and merchandise which bears a name or mark copying or simulating a trade mark or trade name entitled to the protection of section 27 of the Trade Mark Act of 1905, or section 6 of the Trade Mark Act of 1920, if not imported by or for the account of, or with the appropriate written consent of, the owner of the United States trade mark or trade name, shall be detained, but not seized, until 30 days have elapsed from the date of notice to the importer that the merchandise is prohibited importation.

(*b*) Whenever merchandise is detained in accordance with the foregoing provisions of this article and the written consent of the owner of the trade mark or trade name to the importation of the merchandise is not presented to the collector prior to the expiration of the 30-day period, the merchandise shall be seized and forfeited in the usual manner, except that in any such case if the foreign value does not exceed $100 and the collector is satisfied that the importation involved neither wilful negligence nor any intention to defraud the revenue or to violate the law, he may release the merchandise, without formal seizure and without referring the matter to the Bureau, upon the condition that, within 30 days from the date of the collector's decision, the name, mark, or trade mark be re-

moved or obliterated prior to the release, or the merchandise be exported under customs supervision and without expense to the Government. If the value exceeds $100, the importer may petition the Commissioner of Customs, through the collector, for the release of or permission to export the merchandise under the same conditions. (See art. 1145.) In any such case, however, if the name, mark, or trade mark is indelibly impressed upon the merchandise or upon the immediate container thereof and it is impracticable to remove or obliterate the same, such merchandise may be destroyed or exported under customs supervision and at the expense of the importer, or if the immediate container alone bears the name, mark, or trade mark the merchandise may be released after the container has been so destroyed or exported.

(*c*) Merchandise forfeited for violation of any trade-mark law may be disposed of in accordance with the procedure applicable to other customs forfeitures, but only after removal or obliteration of the name, mark, or trade mark by reason of which the goods were seized.

(*d*) If the violation is not discovered until after entry and deposit of estimated duty, the entry shall be endorsed with an appropriate notation, the duty refunded as an erroneous collection, and the merchandise disposed of in accordance with the foregoing provisions of this article.



[Sections 11.14-11.17 of the Customs Regulations of 1943]

## TRADE-MARKS AND TRADE NAMES

§ 11.14 *Trade-marks and trade names; prohibition of importation.* (a) The importation of merchandise of foreign or domestic manufacture is prohibited if such merchandise bears a name or mark which copies or simulates a trade-mark or trade name entitled to the protection of the Trade-Mark Act of February 20, 1905 (33 Stat. 724; 15 U.S.C. ch. 3), or the Trade-Mark Act of March 19, 1920 (41 Stat. 533; 15 U.S.C. ch. 3), unless such merchandise is imported by or for the account of, or with the written consent of, the owner of the protected trade-mark or trade name.

(b) A name or mark (including a name or mark which is a genuine trade-mark or trade name in a foreign country) on an article of foreign manufacture identical with a trade-mark or trade name protected by the trade-mark laws of the United States, as well as a name or mark on an article of foreign or domestic manufacture counterfeiting such protected trade-mark or trade name, or so resembling such protected trade-mark or trade name as to be likely to cause confusion or mistake in the minds of the public or to deceive purchasers, shall be deemed for the purposes of the regulations in this part to copy or simulate such protected trade-mark or trade name. However, merchandise manufactured or sold in a foreign country under a trade-mark or trade name, which trade-mark is registered and recorded, or which trade name is recorded under the trade-mark laws of the United States, shall not be deemed for the purpose of the regulations in this part to copy or simulate such United States trade-mark or trade name if such foreign trade-mark or trade name and such United States trade-mark or trade name are owned by the same person, partnership, association, or corporation. (Secs. 526, 624, 46 Stat. 741, 759; sec. 27, 33 Stat. 730; sec. 3, 34 Stat. 169; sec. 18, 49 Stat. 1811, R.S. 161; 19 U.S.C. 1624, 15 U.S.C. 106, 132, 48 U.S.C. 1405q, 5 U.S.C. 22)

§ 11.15 *Trade-marks; recording.* (a) To record a trade-mark with the Treasury Department, an application, which may be in the form of a letter, shall be addressed to the Bureau of Customs, Washington, D.C., stating the name, residence, and citizenship of the owner or owners (if a partnership, the citizenship of each partner; if a corporation or association, the country or State within which it was organized or created), the name of the locality in which the goods are manufactured, and the customs districts (designated by the names of the headquarters ports) in which the applicant desires to have facsimiles of the statement and drawing recorded. The application shall be accompanied by one certified copy of the original certificate of registration issued by the Commissioner of Patents in accordance with the Trade-Mark Act of February 20, 1905, or the Trade-Mark Act of March 19, 1920,[26] such of the documents mentioned in paragraph (b) as may be required to show the ownership of the applicant, three uncertified printed facsimiles of the statement and drawing covering the trade-mark for deposit in the Treasury Department, and a sufficient number of such facsimiles to enable the Bureau to forward copies to the headquarters ports of the customs districts indicated in the application.[27]

[26] Domestic or foreign manufacturers or traders, to avail themselves of the privileges of the law concerning trade-marks, are required to register their trade-marks with the Commissioner of Patents before the Treasury Department can act. (T.D. 26198)

No fee is charged for recording trade-marks in the Treasury Department. (T.D. 80006)

[27] The number of facsimiles required for each of the several customs districts and the names of the headquarters ports of those districts are as follows:

7 Baltimore, Md.
13 Boston, Mass.
8 Bridgeport, Conn.
9 Buffalo, N.Y.
3 Charleston, S.C.
4 Charlotte Amalia, St. Thomas, V. I.
6 Chicago, Ill.
11 Cleveland, Ohio
2 Denver, Colo.

*(footnote cont'd)*



(b) If ownership of a registered trademark is claimed by an applicant by virtue of an assignment of such trademark, there shall be transmitted with the application for recording, in addition to the documents and information specified in paragraph (a) of this section, a certified abstract of title from the records of the United States Patent Office showing the ownership of the applicant. Similar documentary evidence shall accompany an application for recording if the commercial name of the applicant has been changed subsequent to registration of the trade-mark. If the application for recording is presented after the expiration of the period for which the certificate of registration or a renewal thereof was issued, the application shall be accompanied by a certified copy of a certificate of renewal from the United States Patent Office showing that the registration is in force. In order to continue to receive the protection of the trade-mark statutes with respect to imported merchandise, such a certified copy of a certificate of renewal shall be filed with the Treasury Department if the period of protection expires after the trade-mark has been re-

10 Detroit, Mich.
16 Duluth, Minn.
5 El Paso, Tex.
7 Galveston, Tex.
18 Great Falls, Mont.
7 Honolulu, T. H.
3 Indianapolis, Ind.
2 Juneau, Alaska
17 Laredo, Tex.
9 Los Angeles, Calif.
1 Louisville, Ky.
3 Memphis, Tenn.
8 Milwaukee, Wis.
4 Minneapolis, Minn.
6 Mobile, Ala.
5 New Orleans, La.
26 New York, N.Y.
11 Nogales, Ariz.
11 Norfolk, Va.
15 Ogdensburg, N.Y.
1 Omaha, Nebr.
4 Pembina, N. Dak.
6 Philadelphia, Pa.
2 Pittsburgh, Pa.
5 Port Arthur, Tex.
21 Portland, Maine
6 Portland, Oreg.
3 Providence, R. I.
7 Rochester, N. Y.
24 St. Albans, Vt.
9 St. Louis, Mo.
5 San Diego, Calif.
7 San Francisco, Calif.
14 San Juan, P. R.
4 Savannah, Ga.
20 Seattle, Wash.
21 Tampa, Fla.
4 Wilmington, N. C.

corded. (Secs. 526, 624, 46 Stat. 741, 759, sec. 27, 33 Stat. 730, sec. 3, 34 Stat. 169, sec. 18, 49 Stat. 1811, R.S. 161; 19 U.S.C. 1526, 1624, 15 U.S.C. 106, 132, 48 U.S.C. 1405q, 5 U.S.C. 22)

§ 11.16 *Trade names; recording.* (a) To record the trade name (not a trade-mark) of a manufacturer or trader, an application, which may be in the form of a letter, shall be addressed to the Bureau of Customs, Washington, D.C., stating the trade name, the name, residence, and citizenship of the owner or owners (if a partnership, the citizenship of each partner; if a corporation or association, the country or state within which it was organized or created), a description of the class or kind of merchandise to which the trade name is applied, and the name of the locality in which the merchandise is manufactured.[28] The application shall be accompanied by supporting evidence in the form of affidavits by the owner or owners and by at least two other persons having actual knowledge of the facts, showing that the applicant has used the trade name in connection with the class or kind of merchandise described in the application for a specified period of time and has the sole and exclusive right to the use of such trade name in connection with merchandise of such class or kind.

(b) Such affidavits accompanying an application to record the trade name of a manufacturer or trader located in a foreign country shall be acknowledged before an American consular officer. (Secs. 526, 624, 46 Stat. 741, 759; sec. 27, 33 Stat. 730, sec. 3, 34 Stat. 169, sec. 18, 42 Stat. 1811, R.S. 161; 19 U.S.C. 1526, 1624, 15 U.S.C. 106, 132, 48 U.S.C. 1405q, 5 U.S.C. 22)

§ 11.17 *Detention; seizure; exportation; release.* (a) Merchandise of foreign manufacture which bears a trademark entitled to the protection of section 526, Tariff Act

[28] No fee is charged for recording trade names in the Treasury Department.



of 1930,[29] and merchandise which bears a mark or name copying or simulating a trade-mark or trade name entitled to the protection of section 27, Trade-Mark Act of February 20, 1905 (15 U.S.C. 106), or section 6, Trade-Mark Act of March 19, 1920 (16 U.S.C. 107, 126), if not imported by or for the account of, or with the appropriate written consent of, the owner of the United States trade-mark or trade name, shall be detained, but not seized, until 30 days have elapsed from the date of notice to the importer that the merchandise is prohibited importation.

(b) Whenever merchandise is detained in accordance with the foregoing provisions of this section and the written consent of the owner of the trade-mark or trade

[29] "(a) *Importation prohibited.*—It shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of or by a corporation or association created or organized within, the United States, and registered in the Patent Office by a person domiciled in the United States, under the provisions of the Act entitled 'An Act to authorize the registration of trade-marks used in commerce with foreign nations or among the several States or with Indian tribes, and to protect the same,' approved February 20, 1905, as amended, and if a copy of the certificate of registration of such trade-mark is filed with the Secretary of the Treasury, in the manner provided in section 27 of such Act, unless written consent of the owner of such trade-mark is produced at the time of making entry.

"(b) *Seizure and forfeiture.*—Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

"(c) *Injunction and damages.*—Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trade-mark and shall be liable for the same damages, and profits provided for wrongful use of a trade-mark, under the provisions of such Act of February 20, 1905, as amended" (Tariff Act of 1930 sec. 526; 19 U.S.C. 1526).

name to the importation of the merchandise is not presented to the collector prior to the expiration of the 30-day period, the merchandise shall be seized and forfeited to the usual manner, except that in any such case within the purview of § 23.25 the collector may release the merchandise, but only upon the condition that the name, mark, or trade-mark be removed or obliterated prior to the release, or that the merchandise be exported under customs supervision and without expense to the Government. If the case is not within the purview of § 23.25, the importer may petition the Commissioner of Customs, through the collector, for the release of, or permission to export, the merchandise under the same conditions.

(c) Merchandise forfeited for violation of any trade-mark law may be disposed of in accordance with the procedure applicable to other customs forfeitures, but only after removal or obliteration of the name, mark, or trade-mark by reason of which the goods were seized.

(d) If the violation is not discovered until after entry and deposit of estimated duty, the entry shall be endorsed with an appropriate notation, the duty refunded as an erroneous collection, and the merchandise disposed of in accordance with the foregoing provisions of this section. (Secs. 526, 624, 46 Stat. 741, 759; sec. 27, 33 Stat. 730, sec. 3, 34 Stat. 169, sec. 18, 49 Stat. 1811, R.S. 161; 19 U.S.C. 1526, 1624, 15 U.S.C. 106, 1321, 48 Stat. U.S.C. 1405q, 5 U.S.C. 22)



[Sections 11.14-11.17 of the Customs Regulations of 1947]

Sections 11.14 to 11.17, inclusive, Customs Regulations of 1943 (19 CFR, Cum. Supp., 11.14-11.17), are hereby amended to read as follows:

## TRADE-MARKS AND TRADE NAMES

11.14 *Trade-marks and trade names; prohibition of importation.*—(*a*) The importation of merchandise of foreign or domestic manufacture is prohibited if such merchandise bears a mark or name which copies or simulates a trade-mark or trade name recorded in the Treasury Department under the Trade-Mark Act of February 20, 1905, or the Trade-Mark Act of July 5, 1946, unless such merchandise is imported by or for the account of, or with the written consent of, the owner of the protected trade-mark or trade name.[15]

(*b*) A mark or name (including a mark or name which is a genuine trade-mark or trade name in a foreign country) on an article of foreign manufacture identical with a trade-mark or trade name recorded under the above-mentioned trade-mark laws, as well as a mark or name on an article of foreign or domestic manufacture counterfeiting such recorded trade-mark or trade name, or so

[15] "It shall be unlawful for any person, firm, corporation, or association, being a manufacturer of or wholesale or retail dealer in gold or silver jewelry or gold ware, silver goods or silverware, * * * to import or export or cause to be imported into or exported from the United States for the purpose of selling or disposing of the same, * * * any article of merchandise manufactured after June 13, 1907, and made in whole or in part of gold or silver, or any alloy of either of said metals, and having stamped, branded, engraved, or printed thereon, or upon any tag, card, or label attached thereto, or upon any box, package, cover, or wrapper in which said article is incased or inclosed, any mark or word indicating or designed or intended to indicate that the gold or silver or alloy of either of said metals in such article is of a greater degree of fineness than the actual fineness or quality of such gold, silver, or alloy, according to the standards and subject to the qualifications set forth in sections 295 and 296." (15 U.S.C. 294: see also 15 U.S. 295-298.)

resembling such recorded trade-mark or trade name as to be likely to cause confusion or mistake in the minds of the public or to deceive purchasers, shall be deemed to copy or simulate such protected trade-mark or trade name. However, merchandise manufactured or sold in a foreign country under a trade-mark or trade name, which trade-mark is registered and recorded, or which trade name is recorded under the above-mentioned trade-mark laws, shall not be deemed to copy or simulate such United States trade-mark or trade name if such foreign trade-mark or trade name and such United States trade-mark or trade name are owned by the same person, partnership, association, or corporation. (R. S. 161, sec. 27, 33 Stat. 730, sec. 42, Public No. 489, 79th Cong., secs. 526, 624, 46 Stat. 741, 759; 5 U. S. C. 22, 15 U. S. C. 106, 19 U. S. C. 1526, 1624.)

11.15 *Trade-marks; recording.*[16]—(*a*) To record a trade-mark with the Treasury Department, an application, which may be in the form of a letter, shall be addressed to the Bureau of Customs, Washington 25, D.C., stating the name, residence, and citizenship of the owner or owners (if a partnership, the citizenship of each partner; if a corporation or association, the country or state within which it was organized or created), and the name of the locality in which the goods are manufactured. The application shall be accompanied by one certified copy of the original certificate of registration issued by the Commissioner of Patents in accordance with the Trade-Mark Act of February 20, 1905, or section 7 of the Trade-Mark Act of July 5, 1946, to which shall be attached one printed Patent Office facsimile of the statement and drawing covering the trade-mark, such of the documents mentioned in paragraph (*b*) as may be required to show the ownership of the applicant, and 500 uncertified facsimiles

[16] "Registration on the supplemental register or under the Act of March 19, 1920, shall not be filed in the Department of the Treasury or used to stop importations." (Trade-Mark Act of July 5, 1946, sec. 28; Public No. 489, 79th Cong.)



of the statement and drawing covering the trade-mark (which may be reproduced privately from a Patent Office facsimile) for distribution to all collectors of customs and appraisers of merchandise.[17]

(*b*) If ownership of a registered trade-mark is claimed by an applicant by virtue of an assignment of such trade-mark, there shall be transmitted with the application for recording, in addition to the documents and information specified in paragraph (*a*) of this section, a certified abstract of title from the records of the United States Patent Office showing the ownership of the applicant. Similar documentary evidence shall accompany an application for recording if the commercial name of the applicant has been changed subsequent to registration of the trade-mark. If the application for recording is presented after the expiration of the period for which the certificate of registration or a renewal thereof was issued, the application shall be accompanied by a certified copy of a certificate of renewal from the United States Patent Office showing that the registration is in force. In order to continue to receive the protection of the trade-mark statutes with respect to imported merchandise, such a certified copy of a certificate of renewal shall be filed with the Treasury Department if the period of protection expires after the trade-mark has been recorded. (R. S. 161, sec. 27, 33 Stat. 730, sec. 42, Public No. 489, 79th Cong., secs. 526, 624, 46 Stat. 741, 759; 5 U. S. C. 22, 15 U. S. C. 106, 19 U. S. C. 1526, 1624.)

11.16 *Trade names; recording.*—(*a*) To record the trade name (not a trade-mark) of a manufacturer or trader an application which may be in the form of a letter, shall be addressed to the Bureau of Customs, Washington 25, D.C., stating the trade name, the name, residence, and citizenship of the owner or owners (if a partnership, the citizenship of each partner; if a corpora-

[17] No fee is charged for recording trade-marks or trade names in the Treasury Department.

tion or association, the country or state within which it was organized or created), a description of the class or kind of merchandise to which the trade name is applied, and the name of the locality in which the merchandise is manufactured. The application shall be accompanied by supporting evidence in the form of affidavits by the owner or owners and by at least two other persons having actual knowledge of the facts, showing that the applicant has used the trade name in connection with the class or kind of merchandise described in the application for a specified period of time, that the trade name is not identical with, or confusingly similar to, any other trade name or registered trade-mark used in connection with merchandise of such class or kind, and that the applicant has the sole and exclusive right to the use of such trade name in connection with merchandise of such class or kind.

(*b*) Such affidavits accompanying an application to record the trade name of a manufacturer or trader located in a foreign country shall be acknowledged before an American consular officer. (R. S. 161, sec. 27, 33 Stat. 730, sec. 42, Public No. 489; 79th Cong., secs. 526, 624; 46 Stat. 741, 759; 5 U. S. C. 22, 15 U. S. C. 106, 19 U. S. C. 1526, 1624.)

11.17 *Detention; seizure; exportation; release.*—(*a*) Merchandise of foreign manufacture which bears a trade-mark entitled to the protection of section 526, Tariff Act of 1930,[18] and merchandise which bears a mark or

[18] "(a) IMPORTATION PROHIBITED.—It shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trade-mark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent Office by a person domiciled in the United States, under the provisions of the Act entitled 'An Act to authorize the registration of trade-marks used in commerce with foreign nations or among the several States or with Indian tribes, and to protect the same,' approved February 20, 1905, as amended, and, if a copy of the certificate of registration



name copying or simulating a trade-mark or trade name entitled to the protection of section 27, Trade-Mark Act of February 20, 1905, or section 42, Trade-Mark Act of July 5, 1946,[19] if not imported by or for the account of,

of such trade-mark is filed with the Secretary of the Treasury, in the manner provided in section 27 of such Act, unless written consent of the owner of such trade-mark is produced at the time of making entry.

"(b) SEIZURE AND FORFEITURE.—Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

"(c) INJUNCTION AND DAMAGES.—Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trade-mark and shall be liable for the same damages and profits provided for wrongful use of a trade-mark, under the provisions of such Act of February 20, 1905, as amended." (Tariff Act of 1930, sec. 526; 19 U.S.C. 1526.)

[19] "That no article of imported merchandise which shall copy or simulate the name of any domestic manufacture, or manufacturer, or trader, or of any manufacturer or trader located in any foreign country which, by treaty, convention, or law affords similar privileges to citizens of the United States, or which shall copy or simulate a trade-mark registered in accordance with the provisions of this Act or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States, or that it is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured, shall be admitted to entry at any customhouse of the United States; and, in order to aid the officers of the customs in enforcing this prohibition, any domestic manufacturer or trader, and any foreign manufacturer or trader, who is entitled under the provisions of a treaty, convention, declaration, or agreement between the United States and any foreign country to the advantages afforded by law to citizens of the United States in respect to trade-marks and commercial names, may require his name and residence, and the name of the locality in which his goods are manufactured, and a copy of the certificate of registration of his trade-mark, issued in accordance with the provisions of this Act, to be recorded in books which shall be kept for this purpose in the Department of the Treasury,

or with the appropriate written consent of, the owner of the United States trade-mark or trade name shall be detained for a period of 30 days from the date of notice to the importer that the merchandise is prohibited importation to permit the importer to secure the written consent of the owner of the trade-mark or trade name.

(*b*) Whenever merchandise is detained in accordance with the foregoing provisions of this section and the importer indicates that he will not attempt to secure the written consent of the owner of the trade-mark or trade name to the importation of the merchandise, or such consent is not presented to the collector prior to the expiration of the 30-day period, the merchandise shall be seized and forfeited in the usual manner, except that in any such case within the purview of section 23.25 the collector may release the merchandise upon the condition that the name, mark, or trade-mark be removed or obliterated prior to the release, or may permit the merchandise to be exported under customs supervision and without expense to the Government. If the case is not within the purview of section 23.25 the importer may petition the Commissioner of Customs, through the collector, for the release of, or permission to export, the merchandise under the same conditions.

(*c*) Merchandise forfeited for violation of any trade-mark law may be disposed of in accordance with the procedure applicable to other customs forfeitures, but only

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under such regulations as the Secretary of the Treasury shall prescribe, and may furnish to the Department facsimiles of his name, the name of the locality in which his goods are manufactured, or of his registered trade-mark, and thereupon the Secretary of the Treasury shall cause one or more copies of the same to be transmitted to each collector or other proper officer of customs." (Sec. 42, Public No. 489, 79th Cong. See similar provision in Trade-Mark Act of February 20, 1905, sec. 27; 15 U.S.C. 106.)

The laws of the United States relating to patents, trade-marks, and copyrights have been extended to the Virgin Islands. (See 48 U.S.C. 1405q.)



after removal or obliteration of the name, mark, or trade-mark by reason of which the goods were seized.

(*d*) If the violation is not discovered until after entry and deposit of estimated duty, the entry shall be endorsed with an appropriate notation, the duty refunded as an erroneous collection, and the merchandise disposed of in accordance with the foregoing provisions of this section. (R. S. 161, sec. 27, 33 Stat. 730, sec. 42, Public No. 489, 79th Cong., secs. 526, 624, 46 Stat. 741, 759; 5 U. S. C. 22, 15 U. S. C. 106, 19 U. S. C. 1526, 1624.)

The number of this Treasury decision shall be placed opposite sections 11.13 to 11.17, inclusive, as a marginal reference.

The citation "CIE 33/43, 1/19/43" shall be placed opposite section 11.13 (*b*); the citation "BCL 1878, 8/1/38" shall be placed opposite section 11.13 (*c*); the citations "*Bourjois & Co.* v. *Aldridge*, 263 U. S. 675" and "T. D. 37021" shall be placed opposite section 11.14 (*b*), and the citation "T. D. 47691" shall be placed opposite section 11.17 (*b*) as marginal references.

(014.1)

FRANK DOW,
*Acting Commissioner of Customs.*

Approved October 22, 1947:

E. H. FOLEY, Jr.
*Acting Secretary of the Treasury.*

[Filed with the Division of the Federal Register October 28, 1947, 8:46 a. m.]

MAR 23, 1951

My dear Senator: (Paul H. Douglas)

Further reference is made to your communication —— 1951, enclosing a letter addressed to you from Mr. ——— Worrell of Chicago, Illinois, requesting information concerning regulations governing the importation of gramophone records from England and Canada.

Mr. Worrell states that upon making inquiry at the office of the collector of customs at Chicago, he was informed that, in order to import gramophone records from England and/or Canada for his personal use, it would be necessary to obtain permission in writing from the United States office of the parent corporation controlling the foreign subsidiary from whom the records are purchased and present such authorization at the collector's office before the collector would release the projected import.

It is apparent from the contents of his letter that Mr. Worrell has had some of his records detained because of some violation of the trade-mark laws, or else he wishes to import records which will violate these laws.

Section 526 of the Tariff Act of 1930 prohibits the importation of any article of foreign manufacture if such article bears a trade-mark owned by a corporation organized within the United States, which trade-mark is duly registered in the United States Patent Office and recorded in the Treasury Department, unless a written consent of the trade-mark owner is produced at the time of making entry. Copies of this section and the customs regulations pertaining thereto are enclosed for your convenience.

It should be noted that although certain trade-marked records are prohibited importation, the prohibition is directed at the unlawful use of the trade-mark contained on the records rather than the importation of the records themselves. Therefore, if the infringing trade-marks are removed or obliterated from the records before importa-



tion, the records are not subject to the prohibition of the trade-mark laws. It is the usual practice of collectors of customs to permit tourists and innocent importers to remove or obliterate infringing marks upon ———— may secure the release of their records.

As interpreted by the Bureau, section 526 prohibits the importation of genuine articles of foreign origin bearing a genuine trade-mark valid in the foreign country, which articles were not produced by or with the authority of the United States owner of such mark. For example: if the foreign owner of a trade-mark applied to articles manufactured in a foreign country assigns the United States rights to such trade-mark to a citizen of the United States who registers and records the mark pursuant to section 526, no articles of foreign origin bearing such mark, even though genuine articles bearing the genuine trade-mark, may be imported except by or with the consent of the United States trade-mark owner. The reason for such prohibition is that the assignment of a trade-mark is ineffective without the good will of the business and the foreign trade-mark owner by the assignment has divested himself of all right to use the mark so far as the United States is concerned.

However, if the United States trade-mark owner and the owner of the foreign rights to the same mark are one and the same person, articles produced and sold abroad by the foreign owner may be imported by anyone for the reason that the trade-mark owner has himself introduced the articles into commerce or authorized such introduction and may not unreasonably restrict the use of the product thereafter. For this purpose a foreign subsidiary or licensee of the United States trade-mark owner is considered to stand in the same shoes as such trade-mark owner.

You can see from the two preceding paragraphs that the Bureau does not interpret the law as prohibiting the importation of Mr. Worrell's gramophone records assum-

ing his statements of the facts are correct. If he will furnish us with the trade-mark in question and the names of the Canadian and English firms, we shall be glad to advise him as to whether our records show that there is a parent-subsidiary relationship between the owner of record of the recorded trade-mark and said firms. On the other hand, if he can furnish positive evidence of such a relationship, we shall instruct all customs authorities not to detain importations of records manufactured by those foreign firms..

Your enclosure is returned herewith.

Very truly yours,

/s/ Frank Dow
FRANK DOW
Commissioner of Customs

Honorable Paul H. Douglas
Suite No. 189
Senate Office Building
Washington 25, D.C.

In duplicate



(T. D. 53399 [1953])

*Customs Regulations amended*

Customs Regulations amended to eliminate obsolete material and correct discrepancies

TREASURY DEPARTMENT,
OFFICE OF THE COMMISSIONER OF CUSTOMS,
*Washington, D. C.*

*To Collectors of Customs and Others Concerned:*

## TITLE 19—CUSTOMS DUTIES

### CHAPTER I—BUREAU OF CUSTOMS

To eliminate obsolete material, correct discrepancies, clarify certain provisions, and for other reasons specially indicated, the Customs Regulations are amended as follows:

* * *

### PART 11—PACKING AND STAMPING; MARKING; TRADE-MARKS AND TRADE NAMES; COPYRIGHTS

Section 11.8 is amended by deleting "not" and substituting "in accordance with" for "except as provided for in" in paragraph (*h*) and by inserting "or transfer to customs territory" immediately after "withdrawal" in paragraph (*l*).

Section 11.9 (*a*) is amended by substituting "No" for "Any" at the beginning of the first sentence and by deleting "not" from that sentence.

Section 11.13 is amended by deleting footnote reference "15" at the end of paragraph (*b*) and by substituting "section 294, 1124, or 1125, title 15,[14]" for "the law set forth in footnote 14 or 15" in paragraph (*d*).

The contents of footnote 15 are added at the beginning of footnote 14 and footnote 15 is deleted.

Section 11.14 is amended by inserting the following immediately before the footnote reference "16" at the end of paragraph (*a*):

The prohibition does not apply to articles to which a copying or simulating mark has been applied, if such mark is removed or completely obliterated before importation. See section 11.17 (*b*).

by changing the period at the end of paragraph (*b*) to a comma and adding "or by a related company as defined in section 45 of the Trade-Mark Act of 1946.[17]", and by revising the citation of authority to read "R. S. 161, secs. 42, 45, 60 Stat. 440, 443, sec. 624, 46 Stat. 759; 5 U. S. C. 22, 15 U. S. C. 1124, 1127, 19 U. S. C. 1624.".

Footnote 17, appended to section 11.15 (*a*), is deleted and the following new footnote is appended to section 11.14 (*b*):

[17] The term "related company" means any person, partnership, association, or corporation which legitimately controls, or is controlled by, the registrant or applicant for registration in respect to the nature and quality of the goods in connection with which the mark is used. See 15 U.S.C. 1127.

Section 11.15 is amended to read as follows:

11.15 Trade-marks; recording;[16] change of ownership; renewal.—(*a*) To record a trade-mark with the Treasury Department, an application, which may be in the form of a letter, shall be addressed to the Commissioner of Customs, Washington 25, D. C., stating the name, residence, and citizenship of the owner or owners (if a partnership, the citizenship of each partner; if a corporation or association, the country or State within which it was organized or created), the name of the locality in which the goods are manufactured, and the name and address of each related company or foreign person,



partnership, association, or corporation using the trade-mark while acting as the principal or agent of the trade-mark owner. The application shall be accompanied by one certified copy of the original certificate of registration issued by the Commissioner of Patents in accordance with the Trade-Mark Act of February 20, 1905, or section 7 of the Trade-Mark Act of July 5, 1946, to which shall be attached one printed Patent Office facsimile of the statement and drawing covering the trade-mark; such of the documents mentioned in paragraph (*b*) or (*c*) as may be required to show the ownership of the applicant, or renewal of the trade-mark; 500 uncertified facsimiles of the statement and drawing covering the trade-mark (which may be reproduced privately from a Patent Office facsimile) for distribution to all collectors of customs and appraisers of merchandise; and the fee of $25 prescribed by section 24.12. Checks or money orders in payment of the fee shall be made payable to the Head, Fiscal Section, Bureau of Customs.

(*b*) If ownership of a registered trade-mark is claimed by an applicant by virtue of an assignment of such trade-mark, there shall be transmitted with the application for recording, in addition to the documents and information specified in paragraph (*a*), a certified abstract of title from the records of the United States Patent Office showing the ownership of the applicant and a statement as to whether or not the mark has been reassigned without recordation of the reassignment. Similar documentary evidence shall accompany an application for recording if the commercial name of the applicant has been changed subsequent to the registration of the trade-mark.

(*c*) If the application for recording is presented after the expiration of the period for which the certificate of registration or a renewal thereof was issued, the application shall be accompanied by a certified copy of a certificate of renewal from the United States Patent Office showing that the registration is in force. In order to

continue to receive the protection of the trade-mark statutes with respect to imported merchandise, such a certified copy of each subsequent certificate of renewal shall be promptly filed with the Treasury Department. (R. S. 161, sec. 42, 60 Stat. 440, sec. 624, 46 Stat. 759; 5 U. S. C. 22, 15 U. S. C. 1124, 19 U. S. C. 1624.)

Section 11.16 is amended by substituting "Commissioner" for "Bureau" in the first sentence of paragraph (*a*); by deleting the last "and" in that sentence; by deleting the footnote reference "17" and changing the period at the end of that sentence to a comma and adding "and the name and address of each related company or foreign person, partnership, association, or corporation using the trade name while acting as the principal or agent of the trade name owner."; by inserting "not associated with or related to the applicant but" after "two other persons" in the second sentence of paragraph (*a*); and by revising the citation of authority to read "R. S. 161, sec. 42, 60 Stat. 440, sec. 624, 46 Stat. 759; 5 U. S. C. 22, 15 U. S. C. 1124, 19 U. S. C. 1624.".

Footnote 17, appended to section 11.16 (*a*), is deleted.

Section 11.17 is amended by deleting "of foreign manufacture which bears a trade-mark entitled to the protection of section 526, Tariff Act of 1930,[18] and merchandise" from paragraph (*a*) and by revising the citation of authority to read "R. S. 161, sec. 42, 60 Stat. 440, secs. 618, 624, 46 Stat. 757, 759; 5 U. S. C. 22, 15 U. S. C. 1124, 19 U. S. C. 1618, 1624.".

Footnote 18, appended to section 11.17 (*a*), is deleted.

Section 11.18 is amended by deleting "16," from the citation of authority.

Section 11.19 is amended by deleting "(61 Stat. 652)" from paragraph (*a*), by deleting paragraph (*e*), and by revising paragraph (*d*) to read as follows:



(*d*) In the case of copyrighted works other than those specified in paragraph (*b*), application for recordation shall be made to the Commissioner of Customs, Washington 25, D. C. Such application shall be accompanied by one certified copy of the certificate of registration issued by the Copyright Office pursuant to the provisions of section 209 of the Copyright Act, 500 photographic or other adequate likenesses of the copyrighted work for distribution to all collectors of customs and appraisers of merchandise, and the fee of $25 prescribed by section 24.12. Checks or money orders in payment of the fee shall be made payable to the Head, Fiscal Section, Bureau of Customs. (Sec. 1, 61 Stat. 652; 17 U. S. C., Supp., 109.)

Section 11.21 is amended by substituting "section 1 of the Act of July 30, 1947, as amended,[24]" for "section 16, Title 17, United States Code, as amended by the Act of June 3, 1949 (Public Law No. 84, 81st Cong.),[24]" in the first sentence.

R. S. 161, 251, sec. 624, 46 Stat. 759; 5 U. S. C. 22, 19 U. S. C. 66, 1624.)

(T.D. 54932 [1959])

*Trade-Marks and Trade Names—*
*Customs Regulations amended*

Sections 11.14 (*b*), 11.15 (*a*) and 11.16, Customs Regulations relating to recording of trade-marks and trade names, amended

TREASURY DEPARTMENT,
OFFICE OF THE COMMISSIONER OF CUSTOMS,
*Washington, D.C.*

*To Collectors of Customs and Others Concerned:*

TITLE 19—CUSTOMS DUTIES

CHAPTER I—BUREAU OF CUSTOMS

PART 11—PACKING AND STAMPING; MARKING; TRADE-MARKS AND TRADE NAMES; COPYRIGHTS

It has been determined as a result of a study of the procedures and requirements for recording trade-marks and trade names with the Treasury Department that the requirements concerning "related companies" should be eliminated.

Accordingly, section 11.14 (*b*) is amended by deleting ", or by a related company as defined in section 45 of the Trade-Mark Act of 1946.[17]" found in the last sentence and adding a period following "corporation".

Part 11 is amended by inserting a footnote number 15 at the end of the first sentence of section 11.14 (*a*). The text of the footnote shall read:

[15] "(a) It shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trade mark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent Office by a person domiciled in the United States, under the provisions of sections 81-109 of Title 15, and if a copy of the certificate of registration of such trade mark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15, unless written consent of the owner of such trade mark is produced at the time of making entry.

"(b) Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

"(c) Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trade mark and shall be liable for the same damages and profits provided for wrongful use of a trade mark, under the provisions of sections 81-109 of Title 15." (19 U.S.C. 1526.)



Part 11 is amended by deleting footnote 17.

The citation of authority for section 11.14 is amended to read "(Sec. 42, 60 Stat. 440, sec. 526, 46 Stat. 741; 15 U.S.C. 1124, 19 U.S.C. 1526.)".

Section 11.15 (*a*) is amended by deleting "related company or" found in the first sentence.

Section 11.16 is amended by deleting "related company or" found in the first sentence.

(Sec. 42, 60 Stat. 440; 15 U.S.C. 1124.)

Notice of the issuance of the foregoing amendments was published in the Federal Register on May 1, 1959 (24 F.R. 3513). No arguments against the proposed amendments have been received and the amendments set forth above are hereby adopted.

These amendments shall become effective upon the expiration of 30 days after publication in the Federal Register.

(364.11)

D. B. STRUBINGER,
*Acting Commissioner of Customs.*

Approved September 10, 1959:

A. GILMORE FLUES,
*Acting Secretary of the Treasury.*

[Published in the Federal Register September 18, 1959 (24 F.R. 7522)]

Walter A. Slowinski, Esq. Jul. 2, 1962
Baker, McKenzie & Hightower
901 Barr Building
Washington 6, D.C.

Dear Mr. Slowinski:

The Bureau has carefully considered your letter of January 15, 1962, regarding interpretation of section 11.14 (b) of the Customs Regulations when the American trademark owner has a wholly owned subsidiary abroad using the same trademark. In addition, Mr. Haderlein of your office and Mr. Long of this office discussed the matter on two or three occasions.

The Bureau agrees with your contention that an Indian corporation of which only 30 percent is owned by your client, Sprague Electric Company, North Adams, Massachusetts, is not the same corporation as Sprague Electric Company within the meaning of section 11.14(b). Accordingly, goods originating with such an Indian corporation bearing a Sprague trademark would be denied entry into the United States unless imported with the consent of the trademark owner.

The Bureau does not agree with your contention as to wholly owned foreign subsidiaries of a United States trademark owner. It is the Bureau's opinion that a foreign wholly owned subsidiary and its United States parent corporation are the same corporation within the meaning of section 11.14(b) of the Customs Regulations. This interpretation has been consistently applied for some years before insertion of the "related companies" provision in the customs regulations and since the "related companies" provision was deleted from the regulations in 1959.

Sincerely yours,

/s/ B. H. Flinn
B. H. FLINN
Deputy Commissioner
[Illegible]



Mar. 15, 1963

Felix V. Levitan, Esq.
330 Fifth Avenue
New York 20, New York

Dear Mr. Levitan:

I have your letter of February 26, 1963, in regard to the relationship between your client, Voigtlander Service Corporation and Voigtlander A. G., of Braunschweig, West Germany.

You have advised the Bureau that Voightlander Service Corporation is a wholly-owned subsidiary of Voigtlander A. G., of Braunschweig, West Germany. However, Voigtlander Service Corporation is independently operated with a separate Board of Directors, and in your opinion the foreign mark and the United States mark are not owned by the same person, partnership, association or corporation.

Section 11.14(b) of the Customs Regulations provides, in part, that "merchandise manufactured or sold in a foreign country under a trademark * * * which trademark is registered and recorded, * * * shall not be deemed to copy or simulate such United States trademark * * * if such foreign trademark and such United States trademark * * * are owned by the same person, partnership, association, or corporation."

It has been the Bureau's position for many years that in permitting anyone to import merchandise manufactured or sold by the foreign parent or subsidiary corporation of an American trademark owner is the correct interpretation of section 526 of the tariff act and section 42 of the trademark law.

Therefore, since Voigtlander, A. G., of Braunschweig, West Germany, is the parent corporation of Voigtlander Service Corporation, the Bureau will issue a circular advising customs officers at the various ports of entry of

the relationship between these concerns and that anyone may import the genuinely trademarked merchandise manufactured or sold by this foreign parent corporation.

A copy of the circular will be forwarded to you at such time as the proposed action is completed.

Sincerely yours,

/s/ B. H. Flinn
B. H. FLINN
Deputy Commissioner



(T.D. 69-12 [1968])

*Abstracts of Bureau decisions*

TREASURY DEPARTMENT,
OFFICE OF THE COMMISSIONER OF CUSTOMS,
*Washington, D.C., December 26, 1968.*

The following abstracts of Bureau of Customs decisions of general interest are published as a matter of information and guidance.
(133.121)

ROBERT V. MCINTYRE,
*Assistant Commissioner,*
*Office of Regulations and Rulings.*

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## TRADEMARKS

T.D. 69-12(2) *Trademarks and Trade Names.*—The trademark or trade name on imported foreign-produced merchandise shall not be deemed to copy or simulate a registered trademark or trade name, if the foreign producer is the parent or subsidiary of the American owner or the firms are under a common control. Further, if a foreign producer has been authorized by the American owner to produce and sell goods abroad bearing the recorded trademark or trade name, merchandise so produced and sold is deemed admissible. Bureau letter dated November 25, 1968. (364.11)

[19 C.F.R. § 11.14 (1969)]

## TRADE-MARKS AND TRADE NAMES

§ 11.14 Trade-marks and trade names; prohibition of importation.

(a) The importation of merchandise of foreign or domestic manufacture is prohibited if such merchandise bears a mark or name which copies or simulates a trade-mark or trade name recorded in the Treasury Department under the Trade-Mark Act of February 20, 1905, or the Trade-Mark Act of July 5, 1946, unless such merchandise is imported by or for the account of, or with the written consent of, the owner of the protected trade-mark or trade name.[15] The prohibition does not apply to articles to which a copying or simulating mark has been

[15] "(a) It shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trade mark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent Office by a person domiciled in the United States under the provisions of sections 81-109 of Title 15, and if a copy of the certificate of registration of such trade mark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15, unless written consent of the owner of such trade mark is produced at the time of making entry.

"(b) Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

"(c) Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trade mark and shall be liable for the same damages and profits provided for wrongful use of a trade mark, under the provisions of sections 81-109 of Title 15." (19 U.S.C. 1526.)



applied, if such mark is removed or completely obliterated before importation. See § 11.17(b).[16]

(b) A mark or name (including a mark or name which is a genuine trade-mark or trade name in a foreign country) on an article of foreign manufacture identical with a trade-mark or trade name recorded under the trade-mark laws mentioned in paragraph (a) of this section, as well as a mark or name on an article of foreign or domestic manufacture counterfeiting such recorded trade-mark or trade name, or so resembling such recorded trade-mark or trade name as to be likely to cause confusion or mistake in the minds of the public or to deceive purchasers, shall be deemed to copy or simulate such pro-recorded under the above-mentioned trade-mark laws, as well as a mark or name on an article of foreign or domestic manufacture counterfeiting such recorded trade-mark or trade name, or so resembling such recorded trade-mark or trade name as to be likely to cause confusion or mistake in the minds of the public or to deceive purchasers, shall be deemed to copy or simulate such protected trade-mark or trade name. However, merchandise manufactured or sold in a foreign country under a trade-mark or trade name, which trade-mark is registered and recorded, or which trade name is recorded under the above-mentioned trade-mark laws, shall not be deemed to copy or simulate such United States trade-mark or trade name if such foreign trade-mark or trade name and such United States trade-mark or trade name are owned by the same person, partnership, association, or corporation. (Sec. 42, 60 Stat. 440, sec. 526, 46 Stat. 741; 15 U.S.C. 1124, 19 U.S.C. 1526)

[16] "Registration on the supplemental register or under the act of March 19, 1920, shall not be filed in the Department of the Treasury or be used to stop importations." (Sec. 28, 60 Stat. 436; 15 U.S.C. 1096)

ASSISTANT ATTORNEY GENERAL
ANTITRUST DIVISION

DEPARTMENT OF JUSTICE
Washington

Apr. 19, 1971

Honorable Myles J. Ambrose
Commissioner of Customs
Washington, D.C. 20226

Dear Commissioner Ambrose:

The purpose of this letter is to set forth the comments and views of the Antitrust Division of the Department of Justice on the proposed revision of certain customs regulations concerning trademarks, trade names and copyrights. 35 Fed. Reg. 19269 (December 19, 1970). It is understood that the period within which views may be submitted for consideration has been extended to April 19, 1971.

The Antitrust Division's comments and views as herein set forth are limited to those aspects of the proposed revision which are intended to carry out the provisions of Section 526 of the Tariff Act of 1930 (19 U.S.C. § 1526).

Section 526 of the Tariff Act of 1930 concerns genuine trademarks, legally applied, and states in part that it is unlawful to import

> . . . any merchandise of foreign manufacture if such merchandise . . . bears a trade-mark owned by a citizen of . . . the United States, and registered in the Patent Office . . . unless written consent of the owner of such trade-mark is produced at the time of making entry.

As is relevant here, Section 42 of the Trade-Mark Act of 1946 (15 U.S.C. § 1124) provides that no imported



merchandise which copies or simulates a registered trademark shall be admitted to entry.

*Background*

In January 1923, the Supreme Court held in *Bourjois Company* v. *Katzel*, 260 U.S. 689, that plaintiff's rights under certain United States registered trademarks were infringed by the defendant who imported from France and sold face powder bearing trademarks similar to plaintiff's. The marks on the imported articles were genuine and applied by a French company which had earlier sold its United States business, including good will and trademark to the plaintiff. The Court indicated that plaintiff paid a large sum of money for the business and

> . . . has spent much money in advertising, etc., so that the business has grown very great and the labels have come to be understood by the public here as meaning goods coming from the plaintiff. (p. 691)

Later in its opinion, the Court again stressed the aspect of public confusion:

> It is said that the trade mark here is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trade mark of the plaintiff only in the United States and indicates in law, and, it is found, by public understanding, that the goods come from the plaintiff although not made by it. It was sold and could only be sold with the good will of the business that the plaintiff bought. . . . It stakes the reputation of the plaintiff upon the character of the goods. (p. 692)

The lower court in the *Katzel* case had granted an injunction in plaintiff's favor to restrain infringement. However, the Court of Appeals had reversed. Between the period when the Court of Appeals had reversed the lower court and the Supreme Court had in turn reversed

the Court of Appeals, the predecessor to Section 526 of the Tariff Act was enacted into law. In an opinion written less than two months after the Supreme Court's decision and less than six months after the predecessor to Section 526 was enacted, Judge Learned Hand stated the following:

> Section 526(a) . . . was intended only to supply the *casus omissus*, supposed to exist in Section 27 of the Act of 1905 . . . because of the decision of the Circuit Court of Appeals in *Bourjois* v. *Katzel* (275 Fed. 539). Had the Supreme Court reversed that decision last spring, it would not have been enacted at all. (*Coty* v. *Le Blume Import Co.*, 292 Fed. 264, 268-69 (SDNY 1923)).

Section 27 of the Act of 1905 was the predecessor of Section 42 of the Trade-Mark Act of 1946. In *Bourjois & Co.* v. *Aldridge*, 263 U.S. 675 (1923) (*per curiam*), responding to two certified questions from the Court of Appeals, the Supreme Court decided upon the authority of *Katzel*, that the Customs Collector was required by Section 27 to exclude from entry foreign articles genuinely marked where the sale of such articles infringed registered trademarks of plaintiff Bourjois & Co.

In summary, the *Katzel* and *Aldridge* cases hold that where an independent American company has purchased a going business, including trademarks, of distributing a foreign manufacturer's products and subsequently the public has regarded the American company, rather than the foreign company, as the source of origin of the articles, the importation and sale of the foreign-marked articles is an infringement of the American company's rights. Further Section 27 (now Section 42 of the Trade-Mark Act of 1946) requires Customs to exclude the genuine articles from entry once infringement has been judicially determined.



*Discussion*

Section 133.21(c) of the proposed revision* to the Customs Regulations provides in part that copying or simulating marks or names and identical trademarks shall not be denied entry in the following circumstances:

> (1) Both the foreign and U.S. trademark or trade name are owned by the same person or business entity;
>
> (2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control;
>
> (3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owners . . ..

The issue to which the Antitrust Division is responding herein is whether the regulation quoted above, as applicable to identical trademarks, is authorized by Section 526 of the Tariff Act of 1930. As we understand it, the basic premise behind the regulation is that Section 526 was intended by Congress to apply only to the *Katzel*-type fact pattern.

If applied literally, Section 526 arguably would allow broader protection than that allowed by the proposed regulation. However, it is our position that the legislative history of Section 526, as well as general competitive and trademark policy considerations support the narrower interpretation adopted by the proposed regulation.

If applied literally, Section 526 arguably would prohibit imports of genuine goods identical to the goods sold

* It appears that Section 133.21(c) of the proposed revision, as is relevant to Section 526, is essentially a restatement of past policy of the Bureau of Customs. See 19 C.F.R. 11.14 (Revised as of January 1, 1970); Treasury Decision 69-12(2) (December 26, 1968).

under U.S. trademark. Thus, for example, an American component of a multinational enterprise could insulate itself from competition from third parties who had purchased the identical article from the foreign affiliate of the American firm. Such action would not protect the consumer from deception, since they would be of identical quality. Its only effect would be to raise prices by eliminating competition.

An unlimited agreement pursuant to which an American firm had a foreign manufacturer's promise to prevent other purchasers from selling in the United States would violate antitrust laws. (See *United States* v. *Timken Roller Bearing*, 341 U.S. 593 (1951)). Since Section 526 contains no explicit language indicating that such a broad exemption to the antitrust laws is intended and since repeal of the antitrust laws implication is not favored, an interpretation of Section 526 which prevents an unnecessary elimination of competition is not only permissible but required. (See e.g. *United States* v. *Philadelphia Bank*, 374 U.S. 321, 348 (1964). Cf. Section 33(b)(7) of the Trade Mark Act of 1946).

In *United States* v. *Guerlain, Inc.*, 155 F. Supp. 77 (S.D.N.Y. 1957); *vacated and remanded*, 358 U.S. 915 (1958); *dismissed*, 172 F. Supp. 107 (S.D.N.Y. 1959); (hereinafter the "*Perfume* cases") one contention of the Government was that Section 526 did "not apply to the American part of a single international enterprise to enable it to prevent the importation into the United States of authentic products sold abroad by the foreign part of the enterprise." (155 F. Supp. at p. 80). The district court, reviewing the legislative history of the statute, agreed with the Government's position.

The Supreme Court did not have the opportunity to rule on the matter because, on appeal by the defendants, the Government moved to vacate the judgments and to remand to the district court for the latter's consideration of a Government motion to dismiss. The Government's



motion papers in the Supreme Court stated that the Bureau of Customs, under its interpretation of applicable law, had been denying entry of the foreign articles involved in the *Perfume* cases and that this intra-government conflict was better resolved through means other then antitrust litigation. The Government believed at the time that the most appropriate solution was through Congress. Motion Nos. 24, 30 and 31, October Term 1958.

The Supreme Court vacated the judgments. On remand, the district court dismissed the actions with prejudice and, in so doing, stressed the following:

> . . . it is not the position of the Solicitor General that the decisions were in error and the Government denies that it has employed a stratagem for the confession of error. (172 F. Supp. at p. 108)

It is the position of the Antitrust Division that Section 526 was directed only toward the *Katzel* decision. Had the Supreme Court disposed of the appeal in that case more quickly, Section 526 would not have been enacted. *Coty* v. *Le Blume Import Co., supra.*

There is no indication in the legislative history that Congress intended to create a broad antitrust exemption. Rather, according to Senator Sutherland, the chief supporter of the bill in the Senate debate, Congress simply wanted to protect independent American trademark owners who had made substantial investments from fraud. (62 Cong. Rec. 11603) There is clearly no danger of fraud in those situations set out in Section 133.21(c) of the proposed regulations.

*Conclusion and Recommendation*

The Antitrust Division believes that the adoption and implementation of the proposed revision, as discussed above, is authorized by law.

The Division recommends, for purposes of clarification that the words "or controlled" be added after the word "owned" in subsection (c)(1) of Section 133.21. Further Section 133.2 and Section 133.12 should be as ex-

plicit in requiring information concerning common ownership or control of the trademark or trade name itself as those sections are in requiring information concerning ownership or control relationships between companies using the trademark or trade name here or abroad. Therefore, we recommend that subsection (c) of Section 133.2 and subsection (c) of Section 133.12 be revised to read as follows:

> (c) The name and principal business address of each foreign person or business entity who is authorized to use the trademark [trade name] abroad by assignment, license or other agreement transferring rights, or who has authorized use of the trademark [trade name] in the United States by assignment, license or other agreement transferring rights, and a description of the terms and conditions under which such use is authorized; and

In addition, the prefatory paragraphs in Sections 133.2 and 133.12 should be revised to state that the applicant furnish all information relevant to determining whether restrictions on importation do not apply as provided in Section 133.21(c), including, but not limited to, the information required by subsection (a) through (d) of Section 133.12.

The Division also recommends that it be made clear that the information required to be filed under Section 133.2 and 133.12 must be furnished not only by new and renewal applicants, but also by those who have recorded their marks prior to the effective date of adoption of the proposed revision to the extent that such information has not previously been furnished.

Sincerely yours,

/s/ Walker B. Comegys
WALKER B. COMEGYS
*Acting Assistant Attorney General*
*Antitrust Division*



Jun. 28, 1971

H. John Campaign, Esq.
Graham, McGuire & Campaign
500 Fifth Avenue
New York, New York 10036

Dear Mr. Campaign:

Your letter of June 8, 1971, regarding the proposed amendments to the Customs Regulations adding Part 133, Trademarks, Trade Names, and Copyrights, published in the Federal Register on December 19, 1970, raises several questions.

Initially, you request confirmation of your understanding that a controlled American subsidiary and its foreign parent are the same corporation or company within the meaning of section 11.14(b) of the Customs Regulations and that the controlled American subsidiary is therefore not entitled to prevent the importation of goods made by the parent concern under section 526 of the Tariff Act. This understanding of the Bureau's position relating to section 526 and section 11.14(b) of the Customs Regulations is correct.

The comments filed pursuant to the notice of proposed rule making for Part 133 relate to many different sections of the proposed regulations, and reflect a number of differing viewpoints. An inspection of the comments would provide a clearer view of the arguments than any summary which could be prepared. The comments are available for inspection in the Division of Regulations during normal working hours, in accordance with Part 103 of the Customs Regulations. The following parties have filed comments or objections:

American Bar Association
American Patent Law Association
Association of the Bar of the City of New York
Bar Association of the District of Columbia

Bell and Howell
Chicago Bar Association
French Chamber of Commerce
Goodyear Tire and Rubber Company
Guerlain, Inc.
International Patent and Trademark Association
Mattel
New York Patent Law Association
Schenley Industries, Inc.
State Bar of Texas
United States Trademark Association

The proposed Part 133 is a part of a general revision of the Customs Regulations, which is intended to clarify the regulations and incorporate Bureau policies and procedures which are not in the present regulations. Specifically in regard to section 11.14(b), the proposed regulations set forth more clearly the long standing Bureau interpertation of the meaning of the last sentence relating to the effect of a relationship between foreign and domestic concerns on trademark protection.

Sincerely yours,

/s/ Robert V. McIntyre
~~Robert~~ V. McIntyre
Assistant Commissioner
Office of Regulations and Rulings



THE UNITED STATES TRADE REPRESENTATIVE
Washington
20506

October 5, 1982

The Honorable William von Raab
Commissioner of Customs
U.S. Customs Service
Department of the Treasury
Washington, D.C.

Dear Mr. Commissioner:

The Entry, Licensing and Restricted Merchandise Branch of the Customs Service currently is reviewing its enforcement of section 1526 of Title 19 of the United States Code (section 1526), related to the importation, without authorization, of goods bearing trademarks registered in the U.S. I would like to bring to your attention certain laws and practices of foreign governments that limit the ability of U.S. trademark owners to control the use of their trademarks by foreign licensees. Proliferation of these laws, particularly in developing countries, may indicate that the time has come for the enforcement practices related to section 1526 to change.

Section 1526 states that importation of any merchandise of foreign manufacture bearing a trademark owned by a U.S. citizen or corporation is unlawful unless the written consent of the trademark owner is produced at the time of making entry. Goods imported in violation of this section can be seized.

The practice of the Customs Service has been to apply this provision only when asked to do so by a U.S. party with an assignment or exclusive license to rights of a foreign trademark, registered with the Office of Patents and Trademarks and recorded with the Customs Service. This practice, and the Customs Service regulations related

to enforcement (19 C.F.R. 133.21), are based upon a 1969 Treasury Department decision (T.D. 69-12(2)) that states:

> The trademark or trade names on imported foreign-produced merchandise shall not be deemed to copy or simulate a registered trademark or trade name, if the foreign producer is the parent or subsidiary of the American owner or the firms are under a common control. Further, if a foreign producer has been authorized by the American owner to produce and sell goods abroad bearing the recorded trademark or trade name, merchandise so produced and sold is deemed admissible.

It is my understanding that the rationale for taking this position was that the resources of the Customs Service ought not to be expended enforcing the provisions of private contracts. In 1969, it was possible for trademark owners, for parent companies or for subsidiaries of foreign companies to negotiate at arms length limitations and requirements related to use of a mark. A party violating the provisions of a trademark license could be sued for infringement or for violation of the contract by the other party. Arms length negotiation of trademark licenses is no longer possible in many countries.

In Yugoslavia, Brazil and Mexico, for example, a trademark owner is compelled to license the use of its trademark in order to have that trademark protected. In other countries, licensing may be necessary because high tariffs or other restrictions on imports of the merchandise that bears the trademark make importation uncompetitive. Some of the countries in which licensing is necessary also require that all trademark licenses be registered with the government in order to be enforceable in the courts of that country. Laws in these countries frequently prohibit registration of a license that contains any restriction on exports, including those to the licensor's own country.



These transfer of technology and patent and trademark laws invalidate the basic assumption underlying the 1969 Treasury decision. Trademark owners in the United States frequently cannot include restrictions on the use of their trademarks in licenses, and enforce those licenses in U.S. courts, if they are to have trademark protection in the licensee's country. Since section 1526 states that importation of trademarked merchandise is lawful only when the written consent of the U.S. trademark owner is produced at the time of making entry, could it not be enforced simply by requiring written consent of the trademark owner be produced as part of the documentation necessary for each entry of trademarked merchandise regardless of the relationship between the trademark owner and the foreign producer of the merchandise? Such a change in practice would restore some equity that has been lost as a result of changes in the laws of other countries.

I ask that you consider the changed circumstances described above as part of your review of the enforcement practices related to section 1526. I would appreciate being informed of the outcome of your deliberations.

Very truly yours,

/s/ William E. Brock
WILLIAM E. BROCK

THE COMMISSIONER OF CUSTOMS

WASHINGTON, D.C.
RES-1 CO:R:E:E:
720599 SO

NOV 3 1982

Dear Mr. Brock:

Thank you for your letter of October 5, 1982, bringing to our attention certain laws and practices of foreign governments which limit the ability of U.S. trademark owners to control the use of their trademarks by foreign licensees. You stated that these laws may indicate that the time has come for the U.S. Customs Service to change our present enforcement practices with regard to articles bearing trademarks owned by U.S. citizens or corporations imported in violation of Section 1526 of Title 19, United States Code (19 U.S.C. 1526). You suggested that importation of trademarked merchandise would be lawful only if written consent of the U.S. trademark owner is produced at the time of making entry and that the U.S. Customs Service could enforce the law simply by requiring the importer to produce the written consent of the trademark owner when entering his merchandise.

You will be pleased to hear that we are considering changing our enforcement practices as you have suggested. However, pursuant to Section 177.10(c)(2) of the Customs Regulations (19 CFR 177.10(c)(2)) and Sections 552 (a)(1)(D) & (E) of the Administrative Procedure Act (5 U.S.C. 552(a)(1)(D) & (E)), publication of notice of our proposed change in position in the *Federal Register* and consideration of the comments of the public is required before the change can be implemented. Early publication of a Notice of Proposed Rulemaking is contemplated.

We appreciate receiving your views on this important matter.



Yours faithfully,

/s/ [Illegible]
Acting Commissioner of Customs

The Honorable
William E. Brock
The United States
Trade Representative
Washington, D.C. 20506

UNITED STATES SENATE
COMMITTEE ON THE JUDICIARY
Washington, D.C. 20510

November 7, 1983

The Honorable Donald T. Regan
The Secretary of the Treasury
Room 3330
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Mr. Secretary:

It is our understanding that you are in the process of reviewing proposed regulations drafted by the U.S. Customs Service amending 19 C.F.R. Section 133.21 to extend to all American companies regardless of foreign affiliation, so long as they are properly registered trademark owners, the same privileges with regard to the importation of trademarked goods as are now enjoyed by non-foreign-affiliated domestic corporations.

We believe that the proposed regulations reflect proper application of the trademark and trade laws. It is essential to the American consumer and worker that the integrity of trademarked goods be preserved. Trademark owners spend many millions of dollars on advertising, warranty programs, quality control programs, retail sales programs and other good business practices to deliver an excellent product and service to the consumer. When companies are not permitted to protect the integrity of their trademarks, consumers are mislead, with injury resulting both to the consumer and legitimate trademark owner.

Moreover, trademark owners, whether or not affiliated with foreign companies, directly and indirectly employ thousands of Americans. Failure to permit these companies to protect their trademarks can lead to losses of sales and a consequent reduction in the domestic work



force which is offset only to a minimal extent by the employment of diverters of trademarked goods.

In sum, we believe Customs should be allowed to proceed with its plan to protect all American trademark owners on an equal basis. We hope, Mr. Secretary, that you will personally approve the publication of these regulations.

Sincerely,

/s/ James Abdnor
JAMES ABDNOR
United States Senator

/s/ Dennis DeConcini
DENNIS DECONCINI
United States Senator

/s/ Bill Bradley
BILL BRADLEY
United States Senator

/s/ Alfonse M. D'Amato
ALFONSE M. D'AMATO
United States Senator

/s/ Orrin G. Hatch
ORRIN G. HATCH
United States Senator

/s/ Daniel P. Moynihan
DANIEL P. MOYNIHAN
United States Senator

/s/ Paul Laxalt
PAUL LAXALT
United States Senator

[SEAL]

THE SECRETARY OF THE TREASURY
Washington, D.C. 20220

December 23, 1983

Dear Dennis:

Thank you for your letter of November 7, 1983, asking us to personally approve the publication of proposed Customs Service Regulations which would extend the import protection for trademarked articles provided by Section 526 of the Tariff Act of 1930, as amended (19 U.S.C. 1526), to all American companies regardless of foreign affiliation. You believe that it is essential to the American consumer and worker that the integrity of trademarked goods be preserved and also that the proposed regulations which we are in the process of reviewing reflect proper application of the trademark and trade laws.

The Customs Service Regulations in question (19 CFR 133.21(c)(1) & (2)) are based on a judicial decision in the consolidated "perfume" cases, *United States v. Guerlain,* 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded,* 358 U.S. 915 (1958), *action dismissed,* 172 F. Supp. 107 (S.D.N.Y. 1959). The 1957 decision held that the American part of a single international enterprise could not invoke the provisions of Section 526 to prevent the importation into the United States of authentic products sold abroad by the foreign part of the enterprise. The current regulations permit the unrestricted importation of trademarked products manufactured abroad where both the foreign and American trademark rights are owned by the same company or companies under common ownership or control.

However, in response to numerous petitions, we have been considering whether to issue a notice of proposed rulemaking which would change our regulations. In brief,



the change would affect Customs protection for genuine trademarks by providing that a U.S. subsidiary of a foreign corporation which was the registered owner of a trademark in the U.S. could record the mark with Customs, and Customs would prohibit the importation of genuine goods without the consent of the trademark owner.

We are aware that this is an important and controversial matter, and it is receiving interagency consideration. No final decision regarding the possible publication of a *Federal Register* notice has been reached. An issue such as this, having so great an impact on commerce, demands careful consideration. You may be assured that your views are receiving full consideration.

With best wishes.

Sincerely,

/s/ Don
DONALD T. REGAN

The Honorable
Dennis DeConcini
United States Senate
Washington, D.C. 20510

SUPREME COURT OF THE UNITED STATES

No. 86-495

K MART CORPORATION,
*Petitioner*

v.

CARTIER, INC., *et al.*

ORDER ALLOWING CERTIORARI

Filed December 8, 1986

The petition herein for a writ of certiorari to the United States Court of Appeals for the District of Columbia is granted. This case is consolidated with 86-624, *47th Street Photo, Inc.* v. *Coalition to Preserve the Integrity of American Trademarks, et al.* and 86-625, *United States, et al.* v. *Coalition to Preserve the Integrity of American Trademarks, et al.*, and a total of one hour is allotted for oral argument.



SUPREME COURT OF THE UNITED STATES

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No. 86-624

47TH STREET PHOTO, INC.,
*Petitioner*

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

---

ORDER ALLOWING CERTIORARI

Filed December 8, 1986

The petition herein for a writ of certiorari to the United States Court of Appeals for the District of Columbia, is granted. This case is consolidated with 86-495, *K Mart Corporation* v. *Cartier, Inc., et al.*, and 86-625, *United States, et al.* v. *Coalition to Preserve the Integrity of American Trademarks, et al.*, and a total of one hour is allotted for oral argument.

SUPREME COURT OF THE UNITED STATES

No. 86-625

UNITED STATES, *et al.*,
*Petitioners*
v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

## ORDER ALLOWING CERTIORARI

Filed December 8, 1986

The petition herein for a writ of certiorari to the United States Court of Appeals for the District of Columbia is granted. This case is consolidated with 86-495, *K Mart Corporation* v. *Cartier, Inc., et al.*, and 86-624 *47th Street Photo, Inc.* v. *Coalition to Preserve the Integrity of American Trademarks, et al.*, and a total of one hour is allotted for oral argument.

# PETITIONER'S

# BRIEF

Nos. 86-495, 86-624 and 86-625

# In the Supreme Court of the United States

OCTOBER TERM, 1986



K MART CORPORATION, PETITIONER

*v.*

CARTIER, INC., ET AL.

47TH STREET PHOTO, INC., PETITIONER

*v.*

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.

UNITED STATES OF AMERICA, ET AL., PETITIONERS

*v.*

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.

*ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT*

## BRIEF FOR THE FEDERAL PETITIONERS

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61pp

## QUESTION PRESENTED

Section 526 of the Hawley-Smoot Tariff Act of 1930, 19 U.S.C. 1526, restricts the unauthorized importation of foreign merchandise bearing a trademark that is registered in the United States Patent and Trademark Office and owned by a United States citizen, corporation, or association. The question presented in this case is whether a Customs Service regulation is valid which permits the importation of foreign merchandise bearing a trademark identical to a U.S. registered trademark when (1) the foreign and U.S. trademarks are owned by the same person; (2) the foreign and U.S. trademark owners are subject to common ownership or control; or (3) the trademark was applied under authorization of the U.S. trademark owner.

## PARTIES TO THE PROCEEDING

The petitioners are K mart Corporation (No. 86-495); 47th Street Photo, Inc. (No. 86-624); and the United States of America, James A. Baker III, Secretary of the Treasury, and William von Raab, Commissioner of Customs (No. 86-625). The respondents in each of the three consolidated cases are Cartier, Inc., Charles of the Ritz Group, Ltd., and Coalition to Preserve the Integrity of American Trademarks (COPIAT).*

---

* COPIAT is a non-profit organization composed of the following members: AC & R Advertising, Inc., Alfin Fragrances, Inc., American Cyanamid Company/Jacqueline Cochran, American Watch Association, Auto-Time, Avon Products, Inc., Baccarat, Inc., Bercut-Vandervoort & Co., Brielle Galleries, Brown & Company, Inc., Calvin Klein Cosmetics Corp., Canon U.S.A., Inc., Carl Zeiss, Inc., Cartier, Inc., Charles of the Ritz Group, Ltd., Citizen Watch Company of America, Inc., Colonia, Inc., Computer Retail Trade Association, Cosmair, Inc., Dennis Time Company, Dial Corporation/Greyhound Corp., Diodon, Inc., Distilled Spirits Council of the U.S., Inc., Duracell, Inc., Electronic Industries Association/Consumer Electronics Group, E. Leitz, Inc., Estee Lauder, Inc., Giorgio, Inc., Perfume Division, G-K-G, Inc., G.M.I. Photographic, Inc., Halston Fragrances, Inc., Joseph E. Seagram & Sons, Inc., Maier & Berkele, Mimco, Minolta Corporation, National Association of Beverage Importers, Inc., Nikon, Inc., North American Watch Corporation, NETCO, Omichron Corporation, P. Robertet, Inc., Paco Rabanne Parfums, Parfums Givenchy, Inc., Parfums Stern, Inc., Parfums Worth Corp., Pentax Corporation, PFW, Division of Hercules, Inc., Photographic Manufacturers and Distributors Association, Inc., Photographic Trade News, Polaris Optics, Procter & Gamble Company, Revlon, Inc., Richardson-Vicks, Inc., Schneider Corporation of America, Seiko Time Corporation/Hattori Corporation of America, Sinar Bron, Inc., Sony Corporation of America, Stanhill Enterprises, Inc., Texchron, Inc., Tokina Optical Corporation, Victor Hasselblad, Inc., Warner Cosmetics Incorporated, Weil Ceramics & Glass, Inc., and The Wilkes Group, Inc.

## TABLE OF CONTENTS



## TABLE OF AUTHORITIES

Cases:

Cases—Continued: Page





Cases—Continued: Page

Statutes and regulations: Page



Miscellaneous:





Miscellaneous—Continued: Page

# In the Supreme Court of the United States

OCTOBER TERM, 1986

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No. 86-495

K MART CORPORATION, PETITIONER

*v.*

CARTIER, INC., ET AL.

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No. 86-624

47TH STREET PHOTO, INC., PETITIONER

*v.*

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.

---

No. 86-625

UNITED STATES OF AMERICA, ET AL., PETITIONERS

*v.*

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.

---

*ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT*

---

**BRIEF FOR THE FEDERAL PETITIONERS**

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## OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-32a [1]) is reported at 790 F.2d 903. The opinion of the district court (Pet. App. 34a-50a) is reported at 598 F. Supp. 844.

## JURISDICTION

The judgment of the court of appeals (Pet. App. 51a) was entered on May 6, 1986. Petitions for rehearing were denied on July 18, 1986 (Pet. App. 53a). The United States' petition for a writ of certiorari (No. 86-625) was filed on October 16, 1986, and was granted on December 8, 1986. The jurisdiction of this Court rests on 28 U.S.C. 1254(1).[2]

## STATUTE AND REGULATION INVOLVED

The relevant statute and regulation are reproduced in the Addendum to this brief.

## STATEMENT

### A. Introduction

The Fordney-McCumber Tariff Act of 1922, ch. 356, 42 Stat. 858 *et seq.* (the 1922 Tariff Act) and the Hawley-Smoot Tariff Act of 1930, ch. 497, 46 Stat. 590 *et seq.* (the 1930 Tariff Act) are best known for their sweeping revision of U.S. policy on tariffs and trade.[3] This case concerns a little noticed non-tariff provision of those statutes, added as a floor amendment to the 1922 Tariff Act (see § 526, 42 Stat. 975), reenacted as Section 526 of the 1930 Tariff Act (46 Stat. 741), and now codified (as amended) at 19 U.S.C. 1526, which restricts the unauthorized importation of goods bearing U.S. trademarks. The question is whether a Department of the Treasury regulation, which interprets Section 526 as not prohibiting "parallel" importation of genuine trademarked goods under certain circumstances, is valid. The answer will determine the fate of an important segment of the American retailing industry.[4]

Section 526(a) of the 1930 Tariff Act makes it unlawful "to import into the United States any merchandise of foreign manufacture if such merchandise * * * bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States * * * unless written consent of the owner of such trademark is produced at the time of making entry." 19 U.S.C. 1526(a).[5] Section 624 of the 1930 Tariff Act provides that "the Secretary of the Treasury is authorized to make such rules and regulations as may be necessary to carry out the provisions of this chapter." 19 U.S.C. 1624. Under the Treasury Department's regulation interpreting Section 526 (the "Customs Service regulation" set forth at 19 C.F.R. 133.21), an American firm that purchases the right to use a foreign mark as a U.S. trademark receives protection from attempts by others to import foreign merchandise (including "genuine" merchandise manufactured by the owner of the foreign

[1] "Pet. App." refers to the appendix to the government's petition for a writ of certiorari (No. 86-625).

[2] This Court also granted the petitions in No. 86-495 (filed September 26, 1986) and No. 86-624 (filed October 16, 1986), arising from the same judgment, and set the three cases for consolidated review. The petitioner in No. 86-624 challenges the lower courts' jurisdiction. We will address the question in our response to that petitioner's brief.

[3] See W. Kelly, *Studies in United States Commercial Policy* 3-68 (1963).



[4] Empirical information on the nature and extent of the so-called "gray market" is quite limited. Some reports have suggested that parallel imports have accounted for as much as $7 billion in domestic sales annually. See *The $7 Billion Gray Market: Where it Stops, Nobody Knows*, Business Week, Apr. 15, 1985, at 86-87. We cannot attest to the accuracy of that figure.

[5] Section 526(d), added in 1978, permits Americans returning from abroad to bring back limited quantities of foreign merchandise bearing U.S. trademarks. See 19 U.S.C. 1526(d).

mark) bearing the same or a similar mark. The regulation does not provide that protection, however, when the owners of the foreign mark and the U.S. trademark are the same, or are under common ownership or control, or the use of the foreign mark was authorized by the U.S. owner (*ibid.*). For convenience, we refer to this as the Customs Service regulation's "common control" exception.[6]

Many foreign manufacturers distribute their merchandise in this country through American subsidiaries, sometimes called "authorized distributors," that own the U.S. trademarks. Those firms, which are subject to the Customs Service regulation's common control exception, face sharp competition from "parallel importation": other firms (which may or may not also be related to the foreign manufacturer) acquire foreign goods bearing a genuine mark and supply them to U.S. retailers at prices lower than the U.S. trademark owner charges.[7] The driving force behind parallel importation is a matter of considerable debate. American discount retailers, such as petitioners K mart Corporation and 47th Street Photo, Inc., claim that parallel importation is a market response to attempts by foreign manufacturers to charge higher prices for their goods within the United States than elsewhere in the world (86-495 Pet. 5-7; 86-624 Pet. 2-3). Firms subject to the "common control" exception, such as respondents Cartier, Inc. and Charles of the Ritz Group, Ltd., contend, to the contrary, that parallel importers are taking a "free ride" on their advertising and promotional expenditures (Br. in Opp. 2-4). The Federal Trade Commission's Bureaus of Competition, Consumer Protection, and Economics recently concluded that "[t]he available data on gray market imports are much too sketchy and anecdotal to determine reliably which theory or theories are valid." [8]

Various U.S. trademark owners subject to the common control exception have joined forces through a trade association, respondent Coalition to Preserve the Integrity of American Trademarks (COPIAT), and have mounted a broad campaign, in legislative, administrative, and judicial forums, to reverse the Customs Service regulation.[9] Congress has made no change in the present law thus far. The President's Economic Policy Council, in conjunction with the Department of the Treasury and the Customs Service, is now conducting a policy review of the matter.[10] The courts have, in several cases, rejected respondents' legal objections.[11] The court below concluded, however, that the Treasury Department's longstanding interpretation of Section 526, currently embodied in the Customs Service regulation, is impermissible.

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[6] The Customs Service regulation is set out at pages 3a-4a, *infra*. We discuss the history of the Customs Service regulation at pages 37-40, *infra*.

[7] Similarly, some American firms that own U.S. trademarks authorize foreign manufacturers to produce goods overseas bearing their marks. Those firms also encounter competition from parallel importation.



[8] *Comments of the Bureaus of Competition, Consumer Protection and Economics of the Federal Trade Commission on Gray Market Policy Options Facing the United States Customs Service* 2 (Oct. 17, 1986) [cited hereinafter as *FTC Comments*].

[9] See Eisler, *Gray-Market Mayhem: It's Makers vs. Importers in Lobbying Onslaught*, IX Legal Times, Nov. 17, 1986, at 1, Col 1; Riley, *'Gray Market' Fight Isn't Black and White*, The National Law Journal, Oct. 28, 1985, at 1, Col. 3.

[10] See 51 Fed. Reg. 30024 (1986); *id.* at 22005; 50 Fed. Reg. 1655 (1985); 49 Fed. Reg. 29509 (1984); *id.* at 21453.

[11] See, *e.g.*, *Olympus Corp.* v. *United States*, 792 F.2d 315 (2d Cir. 1986), aff'g 627 F. Supp. 911 (E.D.N.Y. 1985), petition for cert. pending, No. 86-757; *Vivitar Corp.* v. *United States*, 761 F.2d 1552 (Fed. Cir. 1985), aff'g 593 F. Supp. 420 (Ct. Int'l Trade 1984), cert. denied, No. 85-411 (Jan. 13, 1986); *Lever Bros. Co.* v. *United States*, Civ. No. 86-3151 (D.D.C. Jan. 21, 1987).

**B. Proceedings Below**

COPIAT brought this action in the U.S. District Court for the District of Columbia, seeking injunctive and declaratory relief against the United States, the Secretary of the Treasury, and the Commissioner of Customs. COPIAT urged that the Customs Service regulation is inconsistent with Section 526 and with Section 42 of the Lanham Act, which forbids the importation of goods bearing marks that "copy or simulate" U.S. trademarks (15 U.S.C. 1124).[12] K mart Corporation and 47th Street Photo, Inc., intervened as defendants.

The district court concluded that the Customs Service regulation is valid (Pet. App. 34a-50a). The court first rejected (*id.* at 36a) 47th Street Photo's motion to dismiss on the ground that the Court of International Trade has exclusive jurisdiction, pursuant to 28 U.S.C. 1581, over challenges to regulations interpreting Section 526. See *Vivitar Corp.* v. *United States*, 761 F.2d 1552 (Fed. Cir. 1985), cert. denied, No. 85-411 (Jan. 13, 1986). The court then agreed with 47th Street Photo (Pet. App. 37a-39a) that Section 42 of the Lanham Act does not provide a ground for relief in the present case, because that provision forbids only the importation of items bearing counterfeit or spurious trademarks, and dismissed COPIAT's Lanham Act claim. The court next addressed COPIAT's claim that the Customs Service regulation is inconsistent with Section 526 (Pet. App. 39a-48a). The court concluded that the regulation represents a "sufficiently reasonable" interpretation of the statute, "supported by the legislative history, judicial decisions, legislative acquiescence, and the long-standing consistent policy of the Customs Service" (*id.* at 48a). The court added that "[t]he regulations clearly implement the limited purpose for which section 526 was enacted" (*ibid.*).

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[12] Two members of COPIAT—Cartier, Inc. and Charles of the Ritz Group, Ltd.—were also named as plaintiffs. We shall refer to the three plaintiffs collectively as COPIAT.



The court of appeals affirmed the district court's jurisdictional ruling (Pet. App. 4a-8a) but reversed the determination that the Customs Service regulation is valid (*id.* at 8a-31a). The court of appeals stated that "Section 526 does not, on its face, admit of any exceptions based upon the relationship of the American and foreign trademark owners or upon whether the American owner has authorized the use of the trademark abroad" (*id.* at 10a). It concluded that "Congress' intent in Section 526 is clear" (*id.* at 11a) and refused to give deference to the Treasury Department's regulatory interpretation (*ibid.*). The court ruled, in the alternative, that the "regulations are invalid because they do not constitute a reasonable interpretation of Section 526" (*ibid.*). The court found the Customs Service regulation to be inconsistent with the purpose, legislative history, and past interpretations of the statute (*id.* at 11a-28a).

The court of appeals also rejected the district court's conclusion that the history of the Customs Service regulation "reveals 'a pattern of legislative acquiescence'" (Pet. App. 29a (quoting *id.* at 46a)) and the Federal Circuit's prior decision that the Customs Service regulations may be upheld "'as a reasonable exercise of administratively initiated enforcement'" (*id.* at 31a (quoting *Vivitar*, 761 F.2d at 1571)). The court of appeals nevertheless concluded that "injunctive relief is inappropriate at this juncture of the controversy" (Pet. App. 32a) and remanded the case to the district court with instructions "to issue a declaratory judgment that the Customs regulations in question, 19 C.F.R. § 133.21(c)(1)-(3), are contrary to Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, and hence unlawful" (*ibid.*). The court did not address the Lanham Act claim (*id.* at 9a).

## SUMMARY OF ARGUMENT

The purpose of Section 526 of the 1930 Tariff Act was to protect the legitimate expectations of American firms that had acquired foreign marks for use in the United States. Congress did not intend, by enacting that section,

to create a mechanism to help foreign or multinational firms enforce exclusive U.S. distribution arrangements. Accordingly, the Treasury Department has long interpreted Section 526 to permit the importation of genuine trademarked merchandise where the owners of the foreign mark and the U.S. trademark owners are substantially identical companies or are subject to common control. The court of appeals erred in rejecting the Treasury Department's longstanding and reasonable construction of a statute that it is charged with administering. See *Chevron U.S.A. Inc.* v. *NRDC, Inc.*, 467 U.S.C. 837, 842-845 (1984). Any change in the government's policy in this complex and sensitive area should emanate from the legislative or executive branch rather than from the courts.

A. As both the court of appeals and respondents acknowledge, Congress enacted Section 526 in response to a particular case, *A. Bourjois & Co.* v. *Katzel*, 275 F. 539 (2d Cir. 1921), rev'g 274 F. 856 (S.D.N.Y. 1920), rev'd, 260 U.S. 689 (1923), which overturned a preliminary injunction protecting a U.S. trademark owner who had purchased a foreign trademark from importation of goods bearing that mark. Congress acted for the purpose "of protecting the property rights of American citizens who have purchased trade-marks from foreigners" (62 Cong. Rec. 11603 (1922) (Sen. Sutherland)) and exhibited no clear understanding or intention as to how, if at all, Section 526 would apply outside of that particular situation. There is, however, concrete evidence in the legislative record that Congress did not intend to create a mechanism to help foreign or multinational firms enforce exclusive U.S. distribution arrangements.

B. Congress expressly empowered the Treasury Department "to make such rules and regulations as may be necessary to carry out the provisions of [the 1930 Tariff Act]" (19 U.S.C. 1624). The Customs Service regulation implementing Section 526 "is 'reasonably related to the purposes of the enabling legislation'" and is therefore valid. *E.g.*, *Mourning* v. *Family Publications*



*Service, Inc.*, 411 U.S. 356, 369 (1973). In order to protect "property rights of Americans," the regulation generally prohibits unauthorized importation of trademarked items. When (as in *Katzel*) an independent American company purchases U.S. trademark rights from a foreign manufacturer, the American company will receive full protection against unauthorized importation of goods bearing that mark. In order not to furnish a mechanism to assist foreign and multinational firms in enforcing exclusive U.S. distribution arrangements, the regulation provides a limited exception when the foreign and domestic trademark owners are the same or subject to common control, or when the trademark was applied by authorization of the U.S. trademark owner, so that in these situations the Customs Service is not required to exclude genuine goods sold for lower prices in overseas markets.

C. The Treasury Department's interpretation is entitled to particular deference in this instance. First, the Treasury Department has adhered to its basic interpretation of Section 526 for over 50 years. Although the exact terms of the Treasury Department's exception have varied somewhat, the exception has been part of the regulations since 1936. This longstanding and consistent interpretation is entitled to considerable weight. *E.g.*, *Zenith Radio Corp.* v. *United States*, 437 U.S. 443, 450 (1978). Congress has been informed repeatedly of the Customs Service regulation and has declined to alter it. Indeed, Congress took note of the Treasury Department's interpretation in 1978, when it amended Section 526. Second, the domestic retailing industry has placed substantial and justified reliance on the Treasury Department's interpretation. Given this substantial investment-backed reliance, the expert agency's longstanding construction should not be disturbed except for the most compelling reasons. *E.g.*, *Udall* v. *Tallman*, 380 U.S. 1, 18 (1965).

Both Congress and the Executive Branch are currently reviewing the government's policy toward parallel imports. The Treasury Department's adherence to its longstanding interpretation of Section 526 is particularly appropriate at this time in light of those on-going studies of this complicated and controversial matter.

## ARGUMENT

### THE CUSTOMS SERVICE REGULATION SETS FORTH A PERMISSIBLE INTERPRETATION OF SECTION 526 OF THE 1930 TARIFF ACT

The phenomenon of parallel importation raises important and difficult issues of international trade policy and economic theory. Both Congress and the Executive Branch are now reviewing those issues, and (in part because commercial interests on both sides have much at stake) the debate is a heated one. The issue here, however, is not whether the Treasury Department's interpretation of Section 526 of the 1930 Tariff Act is wise as a policy matter. The sole question before this Court is whether the Customs Service regulation, which permits parallel importation in certain circumstances, is a permissible interpretation of the statute. This Court's decision in *Chevron U.S.A. Inc.* v. *NRDC, Inc.*, 467 U.S. 837 (1984), lays out the general framework for answering that question.

*Chevron* states that the initial inquiry, always, is "whether Congress has directly spoken to the precise question at issue" (467 U.S. at 842). "If the intent of Congress is clear, that is the end of the matter; for the court, as well as the agency, must give effect to the unambiguously expressed intent of Congress" (*id.* at 842-843 (footnote omitted)). If, however, the court finds that Congress has not addressed the precise question presented, the court must then determine "whether the agency's answer is based on a permissible construction of the statute" (*id.* at 843 (footnote omitted)). The touchstone for that determination is reasonableness (*id.* at 844, 845).



An agency's interpretation of the meaning or reach of a statute is entitled to special deference when, for example, the decision involves reconciling conflicting policies or requires more than ordinary knowledge of the matters subject to agency regulation (*ibid.*).

When the language of Section 526 is read in light of its legislative history, it is apparent that Congress did not have a clear intent concerning the reach of Section 526. The Customs Service regulation reasonably interprets and implements Congress's apparent purpose and is entitled to judicial deference. Congress may, of course, clarify or modify its purposes in light of current conditions—or in response to the lobbying efforts of the private petitioners and respondents in this case. And the Administration's on-going policy review may provide a new understanding of the parallel importation phenomenon today, which may prompt the Treasury Department to revise the regulation. But in the interim, the courts should defer to the agency's responsible decision to retain its longstanding regulations and preserve the status quo.

#### A. Section 526 Was Enacted To Protect U.S. Trademark Owners That Had Acquired Their Rights From Foreign Trademark Owners; There Is No Evidence That Congress Understood Or Intended It To Apply Where The Foreign And U.S. Trademark Owners Are The Same Or Related Companies

Section 526 of the 1930 Tariff Act prohibits the importation of foreign merchandise bearing a U.S. trademark "owned by a citizen of, or by a corporation or association created or organized within, the United States" unless written consent of the trademark owner is produced at the time of making entry. 19 U.S.C. 1526. When used today in ordinary parlance, this language, standing alone, would normally be taken to refer to a U.S. corporation without regard to any relationship it may have to a foreign person or firm. But the special emphasis in this trade regulation law on protecting

United States citizens, associations, and corporations, is a sharp departure from the language of trademark law [13] and invites further inquiry into whether Congress had in mind a more specific protection of Americans and American firms. That inquiry reveals that "Congress has not addressed the precise question at issue" (*Chevron*, 467 U.S. at 843).

This Court has recognized on a number of occasions that the "circumstances of the enactment of particular legislation may persuade a court that Congress did not intend words of common meaning to have their literal effect." *Watt* v. *Alaska*, 451 U.S. 259, 266 (1981); see, *e.g.*, *FDIC* v. *Philadelphia Gear Corp.*, No. 84-1972 (May 27, 1986), slip op. 5-6; *United States* v. *Riverside Bayview Homes, Inc.*, No. 84-701 (Dec. 4, 1985), slip op. 10. "It is a 'familiar rule, that a thing may be within the letter of the statute and yet not within the statute, because not within its spirit, nor within the intention of its makers.'" *California Federal Savings & Loan Ass'n* v. *Guerra*, No. 85-494 (Jan. 13, 1987), slip op. 10-11 (citation omitted).[14]

[13] Trademark law permits domestic and foreign trademark owners to register trademarks in the United States in the same manner and gives them the same protection (assuming that the mark meets the various requirements for protection) against infringement; the only special rule for foreign owners is that they must designate agents for service. See 15 U.S.C. 1051.

[14] *E.g.*, *Church of the Holy Trinity* v. *United States*, 143 U.S. 457, 459 (1892); see *Train* v. *Colorado Public Interest Research Group, Inc.*, 426 U.S. 1, 10 (1976); *United States* v. *American Trucking Ass'ns*, 310 U.S. 534, 543-544 (1940). See also, *e.g.*, *Chevron*, 467 U.S. at 861 ("We are not persuaded that parsing of general terms in the text of the statute will reveal an actual intent of Congress." (footnote omitted)). When expounding a statute, both the courts and administrative agencies "must not be guided by a single sentence or member of a sentence, but look to the provisions of the whole law, and to its object and policy." *Kelly* v. *Robinson*, No. 85-1033 (Nov. 12, 1986), slip op. 6; *Offshore Logistics, Inc.* v. *Tallentire*, No. 85-202 (June 23, 1986), slip op. 13; *Mastro Plastics Corp.* v. *NLRB*, 350 U.S. 270, 285 (1956); *United States* v. *Heirs of Boisdoré*, 49 U.S. (8 How.) 113, 122 (1850)). "Of course it is true that the words used, even in their literal sense, are the primary, and ordinarily the most reliable, source of interpreting the meaning of any writing: be it a statute, a contract, or anything else. But it is one of the surest indexes of a mature and developed jurisprudence not to make a fortress out of the dictionary; but to remember that statutes always have some purpose or object to accomplish, whose sympathetic and imaginative discovery is the surest guide to their meaning." *Cabell* v. *Markham*, 148 F.2d 737, 739 (2d Cir.) (L. Hand, J.), aff'd, 326 U.S. 404 (1945). See *Boston Sand Co.* v. *United States*, 278 U.S. 41, 48 (1928) (Holmes, J.).



The *Guerra* decision is particularly instructive. The issue there was whether the Pregnancy Discrimination Act of 1978 (the PDA), which provides that pregnant women "shall be treated the same [as other persons] for all employment-related purposes" (42 U.S.C. 2000e(k)), preempted a state law providing special leave and reinstatement rights for pregnant employees. The PDA's language, when read literally, commands that there be neither more favorable nor less favorable treatment for pregnant women. However, when the Court examined that language "against the background of its legislative history and historical context" (*Guerra*, slip op. 10), it concluded (contrary to our urging as to the legislative history [15]) that the statute was passed for the limited purpose of overruling the Court's decision in *General Electric Co.* v. *Gilbert*, 429 U.S. 125 (1976). The Court adopted a correspondingly limited interpretation of the broad statutory language, holding that the PDA imposes a floor but not a ceiling on the rights accorded to pregnant employees (*Guerra*, slip op. 11-12).

Similar reasoning should control this case. Here, as in *Guerra*, Congress legislated in response to a particular judicial precedent. Section 526 was a hastily drafted reaction to the Second Circuit's decision in *A. Bourjois & Co.* v. *Katzel*, 275 F. 539 (1921), rev'g 274 F. 856

[15] See U.S. Amicus Br. 13-15.

(S.D.N.Y. 1920), rev'd, 260 U.S. 689 (1923), which overturned a preliminary injunction protecting a U.S. trademark owner who had purchased a foreign trademark from importation of goods bearing that mark.[16] The legislative history reveals that Section 526 was intended to address the situation present in *Katzel*. Congress wished to protect the expectations of an independent American firm that purchased domestic trademark rights; it had no intention to create a mechanism to help foreign or multinational firms enforce exclusive U.S. distribution arrangements. Here, as in *Guerra*, the broad statutory language must be read in light of the limited objectives Congress intended to achieve. See also, *e.g.*, *Kelly* v. *Robinson*, No. 85-1033 (Nov. 12, 1986), slip op. 6; *Offshore Logistics, Inc.* v. *Tallentire*, No. 85-202 (June 23, 1986), slip op. 13.

1. The facts of *Katzel* are straightforward. A. Bourjois & Co., an American company, purchased from Wertheimer & Cie., a French partnership, the French company's U.S. cosmetics business, including the U.S. trademark and exclusive domestic right to sell "Poudre Java," an internationally recognized face powder (274 F. at 857-858). Eight years later, Bourjois brought a trademark infringement action against another domestic party—Katzel—that had purchased Wertheimer's product abroad and resold it in its French packing, marked "Poudre de riz de Java" (*ibid.*). The district court, responding to Bourjois' request for a preliminary injunction excluding Katzel's imports, stated (*id.* at 859):

> If an American business concern buys all of the rights, as in the case at bar, of a business established here by a foreign concern, and then the foreign concern is nevertheless at liberty to compete with the American concern, the result will be that the purchase of rights, under such circumstances, will give little or no protection; and the foreign concern, as well as the domestic concern, will be seriously injured in the long run, because American capital certainly will not be invested, and foreign concerns will find it difficult to sell the rights which they have developed in this country.

[16] The court of appeals and COPIAT agree, respectively, that the Second Circuit's decision was the "major stimulus" (Pet. App. 12a) and "genesis" (Br. in Opp. 10) of the provision. See also *Coty, Inc.* v. *Le Blume Import Co.*, 292 F. 264, 268-269 (S.D.N.Y. 1923) (L. Hand, J.); *Sturges* v. *Clark D. Pease, Inc.*, 48 F.2d 1035, 1037 (2d Cir. 1931) (A. Hand, J.).



The court observed (*id.* at 860) that the record did not indicate whether the foreign manufacturer knew of or consented to Katzel's action. It also stated that Section 27 of the Trademark Act of 1905 (the precursor of Section 42 of the Lanham Act), which directed the Customs Service to exclude "imported merchandise which shall copy or simulate the name of any domestic manufacture" (33 Stat. 730) did not provide a remedy in these circumstances.[17] It nevertheless enjoined Katzel's importation, fashioning an equitable remedy to deal with this unusual situation (274 F. at 860).[18]

The Second Circuit reversed (275 F. at 539). The court assumed that "it would be a breach of the French firm's obligations [under the assignment contract] to sell

[17] The district court apparently concluded that a mark properly applied abroad does not "copy or simulate" a U.S. mark, stating, "if an article is genuine, in the sense of defendant's box, it may be imported into this country, and cannot be stopped at the door of the custom house" (274 F. at 860). The court did recognize a distinction between trademark infringement and the protections offered by Section 27, stating "whether or not the article may be marketed here under a particular trade-mark is a question to be determined in ascertaining the rights of parties, quite irrespective of section 27" (274 F. at 860).

[18] The court justified its result on the ground that "the original owner of the business and its trade-marks had completely parted therewith to a vendee, who had proceeded upon the strength of his ownership to develop an American market" (274 F. at 860). As we explain at note 19, *infra*, this Court would later rely on that fact to conclude that Katzel infringed Bourjois' trademark.

its face powder in this country" (*id.* at 540). The court stated that the question, however, was whether Katzel has "the right to sell this article under the trademarks which truly indicate its origin" (*ibid.*). It concluded that trademark law did not ~~prohibit~~ that practice, reasoning that a trademark simply demonstrates "the origin of the goods they mark" and that "[i]f the goods sold are the genuine goods covered by the trademark, the rights of the owner of the trade-mark are not infringed" (*id.* at 543). The court, finding that Bourjois could not state a claim of trademark infringement, reversed the district court's preliminary injunction order.

2. American trademark owners, many of whom had acquired foreign trademarks from the Custodian of Alien Property during and after World War I, sought an immediate legislative remedy, even though the Supreme Court had agreed to review the Second Circuit's decision.[19] Their efforts resulted in enactment of Section 526 of the 1922 Tariff Act. The brief legislative record indicates that Congress enacted Section 526 for the narrow purpose "of protecting the property rights of American citizens who have purchased trade-marks from foreigners" (62 Cong. Rec. 11603 (1922) (Sen. Sutherland)) and that Congress had no understanding that its hastily drafted remedy would extend beyond that situation.

[19] Bourjois had requested the court of appeals to certify the case for this Court's review, citing "its supreme importance in view of the many businesses * * * bought during the European War by citizens of this country from the Custodian of Alien Property" (275 F. at 544). The court denied that request. Bourjois then filed a petition for a writ of certiorari, which was granted on November 7, 1921. 257 U.S. at 630. This Court ultimately reversed the court of appeals' *Katzel* decision. See *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689 (1923). The Court concluded that Katzel had infringed Bourjois' U.S. trademark, reasoning that the mark Bourjois had purchased "indicates in law, and, it is found, by public understanding, that the goods come from the plaintiff although not made by it." (*id.* at 692). The Court did not mention the statutory remedy at issue here.



When Congress reenacted Section 526 as part of the 1930 Tariff Act, it also expressed an understanding that the provision had a limited scope, suggesting that it protected only domestic firms from infringement of their marks. In both instances, Congress did not consider or address the subtle, complex, and potentially far-reaching problems that can arise when, as here, foreign trademark owners create American subsidiaries for the purpose of marketing goods under U.S. trademarks.

a. The House Conference report on the 1922 Tariff Act provides a short description of Section 526.[20] That report cites (by indirect reference) the *Katzel* decision, and indicates that Section 526 would provide the remedy that the court of appeals had denied "in order to protect the American manufacturer or producer" (H.R. Conf. Rep. 1223, 67th Cong., 2d Sess. 158 (1922)). The report notes that the provision was amended in conference to limit that protection to trademarks owned "by a citizen of the United States or by a corporation or association created or organized within the United States" (*ibid.*).

The legislative debate surrounding this enactment reveals that Section 526 was proposed on the Senate floor

[20] That report states (H.R. Conf. Rep. 1223, 67th Cong., 2d Sess. 158 (1922)):

> A recent decision of the circuit court of appeals holds that existing law does not prevent the importation of merchandise bearing the same trademark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. The Senate amendment makes such importation unlawful without the consent of the owner of the American trade-mark, in order to protect the American manufacturer or producer; and the House recedes with an amendment requiring that the trade-mark be owned, at the time of the importation, by a citizen of the United States or by a corporation or association created or organized within the United States.

The Senate Conference report gives no explanation of Section 526. See S. Conf. Rep. 253, 67th Cong., 2d Sess. 51 (1922).

as one of the "midnight amendments" to the 1922 Tariff Act. 62 Cong. Rec. 11602 (1922).[21] Its original language provided in pertinent part (*ibid.*):

> it shall be unlawful to import into the United States any merchandise if such merchandise * * * bears a trade-mark registered in the Patent Office by a person domiciled in the United States * * * unless written consent of the owner of such trademark is produced at the time of making entry.

The Senate allotted ten minutes for its debate (62 Cong. Rec. 11585-11586 (1922)). During that brief period, the proponents repeatedly assured their fellow senators that Section 526 was intended to serve the limited purpose of protecting Americans who *purchased* U.S. trademark rights from foreign trademark owners.

Senator Moses raised an initial objection to Section 526 precisely because the provision was intended only to reverse the result in *Katzel.* 62 Cong. Rec. 11603 (1922).[22] Senator Sutherland, the chief proponent, did not disagree with that characterization. Instead, he defended that objective, stating (*ibid.* (emphasis added)):

> Mr. President, all that this paragraph does is to prevent fraud, and I believe that the Senate is in favor of *protecting the property rights of American citizens who have purchased trade-marks from foreigners,* and when these foreigners deliberately violate the property rights of those *to whom they have sold these trade-marks* by shipping over to this country goods under those identical trade-marks.

[21] "It was written by a lawyer well known in the precincts of the Capitol; it was inserted in the bill originally, without hearing, upon the votes of four Senators, it was removed from the bill by a disagreeing vote * * * [and] was put back in the bill among the myriad of amendments brought in by the committee the other morning after their midnight session * * *." 62 Cong. Rec. 11602 (1922) (Sen. Moses). It was not reviewed by the Committee on Foreign Relations or the Committee on Patents (*ibid.*).

[22] He observed that "the whole subject matter involved in this amendment is now before the courts of the United States for determination. A case involving its entire principle has been heard in the circuit court of appeals and is now on its way to the Supreme Court of the United States for final determination." 62 Cong. Rec. 11603 (1922).



Senator Sutherland repeatedly emphasized that Section 526 was designed for the specific purpose of protecting American citizens who purchased U.S. trademark rights to a product manufactured abroad.[23]

Senator McCumber, the other principal spokesman for Section 526, concurred in Senator Sutherland's assessment. He observed that "the courts have held that we can not prevent any product being shipped into the United States if it is in violation of a trade-mark where the foreign maker *has sold trade-mark and all,* patent and everything, in the United States." 62 Cong. Rec. 11604 (1922) (emphasis added). Sen. McCumber cited the specific case of "Bayer's" aspirin, stating (*ibid.* (emphasis added)):

> Suppose not only the patent but the trade-mark * * * is sold to an American concern outright. * * * Then the German firm, notwithstanding that they have sold all rights, including the trademark, begin to ship in Bayer's Aspirin with the same kind of a

[23] See 62 Cong. Rec. 11603 (1922) (describing the bill as a "prohibition against the shipping over to this country of merchandise under specific trade-marks which have been bartered away to citizens of the United States"); *ibid.* (stating that the bill "only protects a property right which has been sold"); see also *ibid.* (Sen. Kellogg) (describing the bill as a "prohibition against the shipping over to this country of merchandise under specific trademarks which have been bartered away to citizens of the United States"). Senator Sutherland's statements reveal a belief that foreign manufacturers were responsible for the importation of U.S. trademarked goods. See also *id.* at 11605 (statement of Sen. McCumber). However, as previously noted (page 15, *supra*), the district court in *Katzel* found no evidence in the record that the foreign manufacturer directly participated in the objectionable practices.

> trade-mark * * *. According to the decision that was read by the Senator from West Virginia [Mr. Sutherland] the American purchasers of these rights are entirely unprotected, and *this is to give the opportunity to protect the American purchaser. That is all there is to it, and there is no treaty against it.*

Senator McCumber later emphasized that Section 526 was intended to protect the American purchaser by serving as a "prohibition against the violation of his contract" (*ibid.*). His comments, like those of Senator Sutherland, convincingly demonstrate that Section 526 was adopted for the limited purpose of protecting the legitimate expectations of American citizens who purchase U.S. trademark rights.[24]

The legislative debate demonstrates, with equal persuasiveness, that Congress did not directly consider the problem presented in this case: whether, if a foreign trademark owner has created a U.S. subsidiary for the purpose of marketing its goods under a U.S. trademark, the U.S. Customs Service must prevent parallel importation of goods manufactured by the foreign firm. The

[24] See also 62 Cong. Rec. 11604 (1922) (statement of Sen. Simmons) ("if the Bayer Co. puts the trade-mark which now belongs to American citizens upon those goods the goods are to be excluded, because it is an invasion of the rights of American citizens"); (*ibid.*) (statement of Sen. Pomerene) ("this is simply an exercise of good faith on the part of Congress toward the people who have acquired the rights to this trade-mark under laws heretofore enacted by the Congress of the United States"). Indeed, the proponents promptly revised the provision in response to suggestions that it might be employed in circumstances other than the case, as in *Katzel*, where an American citizen purchased a trade-mark from its foreign owner. For example, Senator Lenroot observed that, under the proposed language, if "an American citizen goes to the city of Toronto and purchases some goods of American manufacture, bearing an American trade-mark" he could not return those goods to the United States. 62 Cong. Rec. 11603 (1922). The proponents promptly amended the proposed language, expressly limiting its reach to goods of "foreign manufacture" (*id.* at 11604). See also note 26, *infra*.



debate contains no discussion of that possibility. Senator Lenroot's inquiries approached (but did not reach) the issue at the close of the debate. He asked whether a foreign trademark owner who employed an American agent to *register* his trademark would be entitled to the protection offered by the legislation.[25] His question, and the answer he received, demonstrate that Congress did not have a clear understanding of how Section 526 would affect any situation other than that presented in *Katzel*. However, the colloquy did establish that Congress had no intention of providing a mechanism to help foreign or multinational corporations enforce exclusive U.S. distribution arrangements.

Senator Lenroot apparently feared that, under the literal language of the floor proposal, a foreign trademark owner might obtain a U.S. monopoly for the distribution of his product, enforced by the Customs Service, by simply employing an American agent to register his trademark in the United States. He posed the following hypothetical question (62 Cong. Rec. 11605 (1922)):

> We will assume that Pears' soap * * * is not registered in the United States. It is sold in the general markets throughout the world, but the makers of Pears' soap desire a monopoly in the United States. They have American agents who register a trademark of Pears' soap here in the United States.
>
> I want to inquire whether any American could purchase Pears' soap abroad and import it without the written consent of their agent here in the United States, and if not, why not?

Senator McCumber plainly believed that Section 526 would *not* apply. He responded, "if there has been no

[25] The floor proposal, it should be remembered, required exclusion of imported merchandise "if such merchandise * * * bears a trade-mark registered in the Patent Office by a person domiciled in the United States" (62 Cong. Rec. 11602 (1922)). Section 526, in its present form, requires American ownership of the trademark as well.

transfer of trade-mark, that presents *an entirely different question*" (*ibid.* (emphasis added)). He added, "The mere fact of a foreigner having a trade-mark and registering that trade-mark in the United States, and selling the goods in the United States through an agency, of course, *would not be affected* by this provision" (*ibid.* (emphasis added)). Senator Lenroot reiterated his concern that, under the literal language of the statute, "Pears' soap could not be bought in the markets of the world and sold here without the written consent of the Pears Soap Co., or their agent" if the company simply arranged for an American to register its domestic trademark (*ibid.*). Before Senator McCumber could respond, time ran out on the debate (*ibid.*). But the House-Senate conference amended Section 526 to preclude the potential problem that Senator Lenroot had perceived.[26]

Thus, when Section 526's language is read in light of its proponents' explanations, it becomes apparent that Congress had no concrete understanding or intention that it would bar importation outside of the situation, as in *Katzel*, where an American entity purchased U.S. trademark rights from the foreign trademark owner.[27] All

[26] As we have previously observed (page 17 & note 25, *supra*), the Senate and House conferees revised Section 526's language to provide that the import exclusion would apply only if the trademark was both *owned* and registered by a American citizen or entity. That revision confirmed Senator McCumber's understanding of the legislation. But it also set the stage for the present dispute—whether a foreign trademark owner could accomplish the same result that Senator Lenroot feared by incorporating a domestic subsidiary that (like the domestic agent in Senator Lenroot's example) could invoke the exclusion for the foreign manufacturer's benefit. As we discuss later (pages 31-36, *infra*) the Treasury Department has reasonably concluded that Congress would have wished to prevent that result.

[27] Section 27 of the 1905 Trademark Act (see page 15, *supra*) already broadly prohibited importation of any merchandise "which shall copy or simulate a trade-mark registered" in the United States. Section 526 prohibited importation of merchandise that "bears a trademark owned by a citizen of * * * the United States"; it thus extended the existing protection (but only as to citizens of the United States) so as to prohibit importation of goods bearing genuine trademarks as well as imitation trademarks. The argument of this brief is that the Treasury Department could reasonably conclude that Congress had in mind, as beneficiaries of the extension, only citizens who had purchased U.S. trademark rights, not U.S. citizens under common control with the foreign trademark owner.



that can be said with certainty is: (1) Congress intended to protect American firms that had acquired U.S. trademark rights from foreign trademark owners; and (2) at the same time, Congress was concerned (as demonstrated by the Lenroot-McCumber exchange and the resulting amendment of the proposed statutory language) that Section 526 *not* give foreign manufacturers a means to enforce exclusive U.S. distribution arrangements.

The context and character of the debate further support this conclusion. The 1922 Tariff Act was a massive undertaking that filled over 100 pages of the Statutes at Large and resulted from a voluminous legislative history. Section 526 was a minor non-tariff provision of that Act, was first considered on the Senate floor, was allotted a mere ten minutes of debate, and was one of over 4,000 proposed amendments considered by the House-Senate conferees. See S. Conf. Rep. 253, 67th Cong., 2d Sess. (1922); H.R. Conf. Rep. 1223, *supra*. Plainly, the breadth of Section 526's language was the product of hasty drafting rather than a conscious intent to prevent importation of U.S. trademarked goods in every instance.[28] Congress did not (indeed, could not)

[28] The "circumstances of its drafting" (*American Tobacco Co.* v. *Patterson*, 456 U.S. 63, 68 (1982)) demonstrate that Congress was not "mindful of every word, of every comma, and of the shading of every phrase" (*id.* at 69 (interior quotation marks omitted)). That fact is illustrated by Section 526's awkward language and by the actions of its sponsors. Notably, in each case where the sponsors encountered objections that the literal language would reach cases distinguishable from *Katzel*, they denied any such intent (and re-

give careful attention to every potential ramification of that floor amendment. Instead, it relied on the representations of Section 526's sponsors, who maintained that Section 526 was designed to provide special protection to Americans who purchased U.S. rights from foreign trademark owners.[29] And it left the implementation of the provision to the Treasury Department, empowering the agency to "make such rules and regulations as may be necessary to carry out the provisions of this Act" (§ 623, 42 Stat. 988). There is no reason whatever to conclude that Congress intended that Section 526 would reach far beyond the specific situation that prompted its proposal and passage. Cf. *American Trucking Ass'ns* v. *United States*, 344 U.S. 298, 307-308 (1953).

vised the language). See notes 24 & 26, *supra*. Furthermore, the sponsors themselves did not have a firm grasp of their proposed statutory language or *Katzel*'s precise facts. For instance, Senator McCumber stated that for Section 526 to apply, "there must be one domiciled in this country who is the owner of the trade-mark" (62 Cong. Rec. 11605 (1922)). However, the provision proposed on the Senate floor did not contain that requirement. See page 18 & note 26, *supra*. He (like Senator Sutherland) also seemed to believe that the foreign trademark owner in *Katzel* had participated in the objectionable importation. See 62 Cong. Rec. 11605 (1922); note 23, *supra*.

[29] Indeed, only an extraordinarily perceptive congressman would have recognized during the brief floor debate that foreign manufacturers could conceivably use the proposed legislation to their advantage by incorporating domestic subsidiaries that would own their U.S. trademarks. Foreign ownership of U.S. firms in United States markets was far less common during that period. For example, total direct foreign investment in the United States during that era was less than one percent of recent figures. Compare U.S. Dep't of Commerce, *Statistical Abstract of the United States 1986*, at 797 (106th ed.) ($159.6 billion in 1984) with U.S. Dep't of Commerce, *Historical Statistics of the United States* Pt. 2, at 869 (1975) ($900 million in 1919). And over 96% of all manufactured goods consumed in the United States during the 1920's were supplied by domestic producers. See W. Kelly, *Studies in United States Commercial Policy* 13 (1963).



b. When Congress enacted the 1930 Tariff Act, it revisited Section 526. The House bill (H.R. 2667, 71st Cong., 1st Sess. (1929)) provided for reenactment of Section 526(a) without substantive change. H.R. Rep. 7, 71st Cong., 1st Sess. 234 (1929). The Senate proposed, however, to modify the provision by omitting the clause that permitted a U.S. trademark owner to consent to the admission of foreign manufactured goods bearing his trademark. S. Rep. 37, 71st Cong., 1st Sess. 75 (1929); 71 Cong. Rec. 3871 (1929).[30] The proposal would have represented a dramatic shift in purpose; it sought to prevent American firms from relocating their manufacturing plants overseas. See S. Rep. 37, *supra*, at 75. Its principal proponent, Senator Reed, explained, "We have been protecting the owner of the trade-mark. Now, we want to protect the American labor that goes to make these articles" (71 Cong. Rec. 3873 (1929)). The Senate passed the Reed proposal following extensive debate on the effects of foreign relocation of American businesses. See 71 Cong. Rec. 3871-3876, 3889-3906, 4497-4498 (1929). The House-Senate conferees ultimately rejected the proposal and Congress reenacted Section 526 without substantive change. See H.R. Conf. Rep. 1326, 71st Cong., 2d Sess. 112 (1930); 72 Cong. Rec. 7870 (1930).

The 1929 floor debate says little about the perceived scope of Section 526, and what it does say further confuses the picture. Senator Reed expressed his belief that the provision was designed to prevent actual trademark infringement, stating (71 Cong. Rec. 3873 (1929) (emphasis added)):

[30] The Senate also proposed to add a new subsection, Section 526(b), that would have extended this import prohibition to articles marked with a U.S. patent notice. See S. Rep. 37, *supra*, at 75.

> At the present time the tariff laws forbid the importation of an article bearing a trade-mark registered in America unless the owner of that trade-mark consents in writing to the importation. Obviously the purpose of that provision is to protect the American owner of the trade-mark against importations of *articles which have been stamped with his mark without his consent.* That is all right as a protection of the American owner of the trade-mark.

Senator George opposed Senator Reed's proposal but agreed with Reed's interpretation of the current law, stating (*id.* at 3872 (emphasis added)):

> The section, as it exists in the present law, provides means whereby *a manufacturer in this country* can register his trade-mark * * * and prevent the importation of merchandise bearing an *infringing* trade-mark.

That interpretation differs from the view, repeatedly expressed in the 1922 Senate debate, that Section 526 would protect the rights of American citizens who, as in *Katzel,* purchased trademarks from foreign entities. But more importantly, even the interpretation offered in 1930 suggests that Section 526 was not intended to reach every case that could fall within its literal language. Here, as in the 1922 debate, Congress gave no indication that Section 526's protection would be available when a foreign trademark owner created a domestic subsidiary that would distribute trademarked items within the United States. And here, as in the 1922 Tariff Act, Congress empowered the Treasury Department "to make such rules and regulations as may be necessary to carry out the provisions of this Act." § 624, 46 Stat. 759 (presently codified at 19 U.S.C. 1624).[31]

[31] Section 526 was amended once again, in 1978, to permit American travelers returning from abroad to bring trademarked goods into the United States. See Customs Procedural Reform and Simplification Act of 1978, Pub. L. No. 95-410, § 211, 92 Stat. 903 (discussed at pages 41-42, *infra*). That amendment did not alter the statutory language at issue here.



3. The legislative record offers no support for the court of appeals' statement that "the statute embodies a purpose as sweeping as the terms its drafters employed" (Pet. App. 12a). And the court is simply incorrect in asserting (*id.* at 14a-15a) that in Section 526 Congress "rejected without qualification the legal theory underlying the Second Circuit's opinion in *Katzel*—the view that a trademark genuine in a foreign country is necessarily genuine here as well—and enshrined the alternative 'territoriality' approach into law": Section 526 is an importation statute that does not deal with the nature or reach of trademarks at all.

The court rests its conclusion that Section 526 expresses a "territoriality" approach to trademark law primarily on its reading of the House Conference report, which characterizes Section 526 as reversing *Katzel*'s denial of an import exclusion (H.R. Conf. Rep. 1223, *supra,* at 158). See Pet. App. 15a. The court states that the "report's reference to *Katzel* mistakenly identifies it as an import exclusion case rather than an infringement case; more important, however, is the report's reflection of Congress' sweeping rejection of prevailing legal doctrine" (*ibid.*). We submit, however, that the Conference report was correct and the court below was mistaken. Bourjois did sue Katzel on a trademark infringement theory, but the Second Circuit's *Katzel* decision reviewed the district court's grant of a *preliminary injunction excluding Katzel's imports.* The Second Circuit reversed the district court's order on the ground that existing law gave the trademark owner no right to exclude genuine goods; Congress, in response, gave the Customs Service and private parties (through a private injunctive remedy) the express right to exclude such goods. See 19 U.S.C. 1526(a)-(c). Congress

showed no interest in redefining the character or concept of a trademark; instead, it sought to provide a particular form of protection for persons in Bourjois' situation, who had purchased a trademark from its foreign owner.[32]

The 1922 legislative debate bears out this interpretation. No senator suggested that Section 526 would clarify or alter the character of the property right represented by a trademark. Instead, the sponsors repeatedly emphasized that the provision would provide protection for rights already in existence.[33] The court below mistakenly perceives some support for its interpretation in the Lenroot-McCumber colloquy, stating that "the appropriate inference to be drawn is that Senator Lenroot was correct in fearing that the statute meant exactly what it said" (Pet. App. 19a). Senator McCumber's re-

[32] See *Coty, Inc.*, 292 F. at 268-269 ("Section 526(a) * * * was intended only to supply the casus omissus, supposed to exist in section 27 of the [Trademark] Act of 1905 * * *.") (L. Hand, J.); cf. Vandenburgh, *The Problem of Importation of Genuinely Marked Goods Is Not a Trademark Problem*, 49 Trademark Rep. 707 (1959).

[33] See, *e.g.*, 62 Cong. Rec. 11603 (1922) (Sen. Sutherland) ("I believe that the Senate is in favor of protecting the property rights of American citizens who have purchased trade-marks from foreigners."); *ibid.* ("[Section 526] only protects a property right which has been sold"); *id.* at 11604 (Sen. McCumber) ("American purchasers of [trademark] rights are entirely unprotected, and this is to give the opportunity to protect the American purchaser."); *ibid.* ("[Section 526] is a prohibition against the violation of [the American trademark purchaser's] contract."); *ibid.* (Sen. Pomerene) ("[Section 526] is simply an exercise of good faith on the part of Congress toward the people who have acquired the rights to this trade-mark under laws heretofore enacted by the Congress of the United States."). Notably, the Senate passed Section 526 without seeking the advice of the Committee on Patents, which exercised jurisdiction over trademark matters (*id.* at 11602 (Sen. Moses)). If Congress had intended to "enshrine" a new legal theory of trademarks, it undoubtedly would have referred the matter to the appropriate congressional committees.



sponse and the conferees' subsequent amendment demonstrate, however, that the proposed language was broader than the sponsors' understanding of the provision. And the court's reliance on speculation and strained inference underscores the absence of a clear legislative intent. Indeed, the court generally concedes (*id.* at 16a-17a, 19a) that the statements of Section 526's sponsors do not support its interpretation.[34]

The court's reading of the legislative history of the 1930 reenactment is also unpersuasive. The court states that Senator Reed's "failed amendment further demonstrates Congress's understanding that Section 526 absolutely barred importation of goods bearing an American company's trademark without the company's consent" because, if the Treasury Department's interpretation is correct, the failed amendment "would have been wholly ineffectual and purposeless" (Pet. App. 20a (footnote omitted)). This logic is flawed for at least three reasons. First, Senator Reed's proposal was *not* simply an amendment of Section 526; it was an enactment of new legislation, under the same section number, for a completely different purpose. One cannot presume that language taken from a repealed statute must necessarily convey the same meaning in subsequent legislation, particularly when the ultimate object of the new enactment is dramatically different.[35] Second, if Senator Reed's pro-

[34] The court suggests that "such statements are best understood as efforts by proponents of a bill to understate its significance" (Pet. App. 17a) and that such statements "must be taken with a grain of salt" (*ibid.*). The court's attempt to psychoanalyze the legislature is, we believe, misguided, and would ultimately pervert the legislative process. The passage of legislation frequently depends on the sponsor's explanation of the purpose and scope of the proposed bill. Congress could not fulfill its function (and its legislative record would become meaningless) if a sponsor's statements were presumed to state anything other than the legislator's actual intent.

[35] As this Court has stated on other occasions, legislation must "be treated as a working instrument of government and not merely

posal became law, his purpose would have been fully effectuated because the Treasury Department would have considered the legislative history and applied the statute in accordance with the legislature's intent. Senator Reed's purpose would have been thwarted only if (as in the present case, see note 34, *supra*) a court applied the statute without regard to the proponents' professed purposes. Finally, Senator Reed himself expressed a narrow reading of the existing law, stating that its purpose was to protect the American trade-mark owner "against importations of articles which have been stamped with his mark without his consent" (71 Cong. Rec. 3873 (1929)).[36]

In sum, we submit that it is not clear that Congress had any understanding or intention as to the "precise

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as a collection of English words." *United States* v. *Dotterweich*, 320 U.S. 277, 280 (1943). See, *e.g.*, *Kelly* v. *Robinson*, slip op. 6 ("[i]n expounding a statute, we must * * * look to the provisions of the whole law, and to its object and policy") (quoting numerous cases); see also *Chevron*, 467 U.S. at 861 ("the meaning of a word must be ascertained in the context of achieving particular objectives").

[36] The court suggests that "[b]ecause Senator Reed was a *proponent* of the effort to strip American trademark owners of the privilege of consenting to imports, logically the phrase 'without his consent' in his remarks modifies 'importations' rather than 'stamped with his mark'" (Pet. App. 20a-21a n.12 (emphasis in original)). However, logic does not compel (or, strictly speaking) even suggest that reading. Senator Reed could, without internal contradiction, wish to replace a statute that he understood to protect domestic manufacturers from foreign trademark infringement with a statute that prevented domestic manufacturers from relocating abroad. Indeed, that was his apparent intention (see page 25, *supra*). Furthermore, the court's interpretation, when applied in context (see page 26, *supra*), would reduce Senator Reed's statement to an ungrammatical tautology. And finally, even if the court's strained interpretation were correct, it would simply render Senator Reed's statement ambiguous on the precise question presented in this case; it would not provide affirmative support for application of Section 526 in the present situation.



question at issue" (*Chevron*, 467 U.S. at 843), the exclusion of trademarked goods where the owner of the U.S. trademark is not, as in *Katzel*, a U.S. purchaser but an affiliate of the foreign trademark owner. *Chevron* dictates that, under these circumstances, "the question for the court is whether the agency's answer is based on a permissible construction of the statute" (*id.* at 843 (footnote omitted)). As we show in the following section, the Treasury Department's construction of Section 526 is plainly reasonable.

### B. The Customs Service Regulation Is A Reasonable Interpretation of Section 526

The 1930 Tariff Act gives the Treasury Department power to ensure that Section 526 is applied in a manner faithful to congressional intent: "the Secretary of the Treasury is authorized to make such rules and regulations as may be necessary to carry out the provisions of this chapter." 19 U.S.C. 1624.[37] This Court has stated that similar broad grants of authority demonstrate that Congress intended to vest "considerable discretion" in the agency. *SEC* v. *Jerry T. O'Brien, Inc.*, 467 U.S. 735, 745 (1984). The Court, in turn, has developed a "well established" standard for judging the agency's action, *Mourning* v. *Family Publications Service, Inc.*, 411 U.S. 356, 369 (1973), stating (*ibid.* (footnote omitted)):

> Where the empowering provision of a statute states simply that the agency may "make . . . such rules and regulations as may be necessary to carry out the provisions of this Act," we have held that the validity of a regulation promulgated thereunder will

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[37] The Treasury Department has authorized the Customs Service to formulate proposed regulations but retains ultimate authority to approve or reject those proposals. See Treas. Dep't Order No. 165, Revised, U.S. Customs Service, *Customs Regulations of the United States* TO-1 (1985). Here, Treasury specifically approved the pertinent regulation under the authority of 19 U.S.C. 1624. See 19 C.F.R. 133.21; 37 Fed. Reg. 20677, 20678 (1972).

> be sustained so long as it is "reasonably related to the purposes of the enabling legislation." *Thorpe* v. *Housing Authority of the City of Durham*, 393 U.S. 268, 280-281 (1969).

See, *e.g.*, *FCC* v. *Schreiber*, 381 U.S. 279, 292 (1965); *American Trucking Ass'ns*, 344 U.S. at 308-312; *Norwegian Nitrogen Co.* v. *United States*, 288 U.S. 294, 321-322 (1933).

In the present case, the Treasury Department cannot fulfill its statutory responsibility by approaching Section 526 on a "purely linguistic level" (*Riverside Bayview Homes*, slip op. 10).[38] Here, as in *Riverside*, such a "simplistic response" does justice neither to the problems faced by the agency in defining the scope of its regulatory mandate, nor to the realities of its enforcement responsibilities (*ibid.*). The Treasury Department must necessarily "look to the legislative history and underlying policies of its statutory grants of authority" (*ibid.*). The resulting Customs Service regulation represents a conscientious and reasonable attempt to fulfill the apparent intent of Congress. There can, we think, be no serious dispute that the regulation is "reasonably related to the purposes of the enabling legislation."

As we have observed, the legislative history of Section 526 does not explain the statute's scope and purposes in a clear, or even consistent manner, but the legislative debates do confirm two points: first, Congress wished to protect Americans citizens who purchase foreign trademarks for domestic use (see pages 18-20, *supra*); and second, Congress had no understanding that it was providing a mechanism to help foreign or multinational firms enforce exclusive U.S. distribution arrangements (see pages 20-23 and note 26, *supra*). The Customs Service regulation, set forth at 19 C.F.R. 133.21, provides the protection Congress sought to provide while excluding cases that, as best the agency could determine, Congress had no wish to reach.

[38] In *Riverside*, this Court concluded that the Army Corps of Engineers could reasonably treat adjacent wetlands as "waters of the United States" (slip op. 9-13).



The Customs Service regulation provides full protection for an American company that, like the plaintiff in *Katzel*, purchases a trademark from its foreign owner for domestic use. If an unrelated American company acquires the trademark from the foreign trademark owner (and complies with Section 526's registration and filing requirements), the Customs Service will exclude articles "bearing a trademark identical with" the acquired mark (see 19 C.F.R. 133.21). Thus, the regulation serves the basic objective that Congress expressed throughout the debate.[39]

The Customs Service regulation provides, however that Section 526 is inapplicable when the "foreign and the U.S. trademark * * * are owned by the same person or business entity" or when the "foreign and domestic trademark * * * owners are parent and subsidiary companies or are otherwise subject to common ownership or control." 19 C.F.R. 133.21(c)(1)-(2).[40] That exception

[39] As we have previously noted, Section 526's sponsors suggested that their provision was necessary to protect American purchasers of trademarks when "foreigners deliberately violate the property rights of those to whom they have sold these trade-marks by shipping over to this country goods under those identical trademarks" (62 Cong. Rec. 11603 (1922) (Sen. Sutherland)). The Treasury Department has chosen to apply the import exclusion even when a third party, rather than the foreign trademark owner, is the exporter. That choice is certainly reasonable given that a third party apparently originated the exports in *Katzel*. See page 15, *supra*. That situation was not discussed in the congressional debate, but no one disputes that the Treasury Department could reasonably conclude that Congress wished to apply Section 526 in that case.

[40] Customs regulations further provide: "(1) 'Common ownership' means individual or aggregate ownership of more than 50 per cent of the business entity; and (2) 'Common control' means effective control in policy and operations and is not necessarily synonymous with common ownership" (19 C.F.R. 133.2(d)).

is, first of all, consistent with Congress's dominant objective. The cases governed by the exception (which we describe collectively as "common control" situations, see page 4, *supra*) are plainly distinguishable from the cases with which Congress was explicitly concerned— situations where an independent American company purchases U.S. trademark rights from the foreign owner of the mark.

For example, it makes little sense to speak of a foreign trademark owner "deliberately violat[ing] the property rights" (62 Cong. Rec. 11603 (1922) (Sen. Sutherland)) of its domestic subsidiary. More generally, protecting the legitimate expectations of a U.S. purchaser of a trademark against the foreign trademark owner (and other firms that are distributing goods manufactured by the foreign trademark owner) is altogether different from protecting a corporate group that *includes* the foreign trademark owner against parallel importation of the group's goods.[41]

[41] COPIAT asserts that the price differentials that spur parallel importation arise from (1) genuine differences in quality (including freshness, availability of service, etc.) and (2) promotional expenditures by the authorized distributor, on which the parallel importer obtains a "free ride" (see page 4, *supra*). As to point (1), a contrary argument (whose validity the Court need not decide) is that if a corporate group needs protection from U.S. sales of genuine but different quality merchandise, the foreign manufacturer can place distinguishing labels on the goods sold to or through the authorized U.S. distribution network. See also *FTC Comments* 2 (stating that "[i]f gray market imports pose consumer deception problems, these problems already fall within the jurisdiction of the Commission under Section 5 of the [Federal Trade Commission] Act"). As to point (2), a contrary argument (whose validity, again, the Court need not decide) is that in the case where the foreign and U.S. trademark owners are the same or commonly owned, *that group* is not necessarily harmed if the authorized distributor's promotional activities increase U.S. sales of other genuine goods. K mart and 47th Street Photo, of course, challenge the premise that quality differences and free riding,



Conversely, if Section 526 were applied in common control situations, the statute would create a legal vehicle by which a foreign or multinational trademark owner could enforce an exclusive distributorship conferred on the U.S. branch or member of the corporate group. The Lenroot-McCumber colloquy and the subsequent conference revision of Section 526 (see pages 21-22, *supra*) suggest that Congress certainly had no intention to provide such a vehicle and would have wanted to prevent such practices.

The Customs Service regulation also states that Section 526 is inapplicable when the imported item bears a trademark "applied under the authorization of the U.S. owner" (19 C.F.R. 133.21(c)(3)). That provision serves to disinguish another "common control" situation that is quite different from the *Katzel* problem. When the U.S. trademark owner authorizes the use of his mark overseas, he may be able, by contractual arrangements, to prevent goods manufactured by the foreign licensee from entering the U.S. and competing with his own. But to the extent that he cannot, there is no evidence that Congress intended that Section 526 would protect him from foreign competition resulting from his own licensing. Once again, the Customs Service regulation represents a reasonable attempt to effectuate the dominant congressional goals.

In short, the Customs Service regulation is fully consistent with Congress's apparent intent. It identifies and advances the primary congressional purposes that motivated the formulation and passage of Section 526. The regulation can properly be characterized as "necessary to carry out the provisions of this chapter" (19 U.S.C. 1624). It is, beyond question, " 'reasonably related to the

rather than price discrimination against U.S. consumers, are the spur to parallel imports. All of these matters are quite distinct from the problem at which Section 526 was aimed.

purposes of the enabling legislation.'" *Mourning*, 411 U.S. at 369 (quoting *Thorpe* v. *Housing Authority of the City of Durham*, 393 U.S. 268, 280-281 (1969)).[42]

**C. The Treasury Department's Interpretation Is Entitled To Particular Deference In This Instance**

This Court has "long recognized that considerable weight should be accorded to an executive department's construction of a statutory scheme that it is entrusted to administer" (*Chevron*, 467 U.S. at 844).[43] There is special cause for deference in this instance. First, the Treasury Department has adhered to its basic interpretation of Section 526 since 1936, more than 50 years. Congress, during that period, has repeatedly been informed of the agency's interpretation and has declined to alter the statute. And second, domestic retailers have placed substantial reliance on the agency's interpretation. As the Second Circuit stated, the decision whether to revise this established regulatory policy "is a matter for the legislative or executive branch and not for the judiciary."

[42] It is noteworthy that the Treasury Department's interpretation narrows, rather than expands, the reach of Section 526. This is not a case where the agency has attempted "to expand its jurisdiction beyond the boundaries established by Congress" (*Board of Governors* v. *Dimension Financial Corp.*, No. 84-1274 (Jan. 22, 1986), slip op. 12 n.6). Cf. *Heckler* v. *Chaney*, 470 U.S. 821, 832 (1985) ("when an agency refuses to act it generally does not exercise its *coercive* power over an individual's liberty or property rights, and thus does not infringe upon areas that courts are often called upon to protect" (emphasis in original)). There is good reason for the Treasury Department to avoid an expansive interpretation of Section 526. As we have already noted (see page 23, *supra*), its broad language was apparently the product of hasty draftsmanship rather than a deliberate intent to achieve broad objectives.

[43] "An agency's expertise is superior to that of a court when a dispute centers on whether a particular regulation is 'reasonably necessary to effectuate any of the provisions or to accomplish any of the purposes' of the Act the agency is charged with enforcing; the agency's position, in such circumstances, is therefore due substantial deference." *CFTC* v. *Schor*, No. 85-621 (July 7, 1986), slip op. 11.



*Olympus Corp.* v. *United States*, 792 F.2d 315, 321 (1986); accord *Lever Bros. Co.* v. *United States*, Civ. No. 86-3151 (D.D.C. Jan. 21, 1987), slip op. 7.

1. This Court generally "accord[s] great weight to the longstanding interpretation placed on a statute by an agency charged with its administration." *NLRB* v. *Bell Aerospace*, 416 U.S. 267, 275 (1974). See, *e.g.*, *FDIC* v. *Philadelphia Gear Corp.*, slip op. 11-13. As the district court recognized (Pet. App. 48a), this is certainly such a case. The Treasury Department first explicitly adopted its interpretation more than 50 years ago. This interpretation, retained through nine presidential administrations, has occasionally sparked controversy and has shown some expansion and contraction over that past half-century. Nevertheless, the basic concept has been steadfastly followed. "This longstanding and consistent interpretation is entitled to considerable weight." *Zenith Radio Corp.* v. *United States*, 437 U.S. 443, 450 (1978).

The Treasury Department explicitly adopted a "same company" exception in 1936, invoking its authority under Sections 526 and 624 of the 1930 Tariff Act and Section 27 of the Trademark Act of 1905. T.D. 48537, 70 Treas. Dec. 336-337 (J.A. 27-30).[44] Under this exception, Section 526's protection was denied if there existed a substantial identity between the foreign and domestic trademark owners. That interpretation was retained when the Treasury Department reissued the regulation in 1937

[44] The regulation prohibited entry of articles bearing a trademark that "copies or simulates" a domestic trademark. Art. 518(a) (J.A. 27). It further provided that a genuine foreign trademark "shall be deemed * * * to copy or simulate" a domestic trademark. Art. 518(b) (J.A. 28). It then stated that an article shall not be deemed to copy or simulate the domestic trademark if the foreign and domestic marks "are owned by the same person, partnership, association or corporation." *Ibid.* Prior to 1936, the Treasury Department's regulations governing Section 526 simply paraphrased the statute. See J.A. 17-26. There is no record of the Customs Service's practices during that period.

(J.A. 31-38), in 1943 (J.A. 39-44), and 1947 (J.A. 45-51).[45] The Treasury Department maintained that interpretation, without change, for 17 years.[46]

In 1953, the Treasury Department modified its regulation in response to the passage of the Lanham Act, which superseded the Trademark Act of 1905. See T.D. 53399 (J.A. 55-59). Treasury retained the "same company" exception, but it also added a "related company" exception (borrowing a definition from Section 45 of the Lanham Act, 15 U.S.C. 1127), that would apply when a foreign trademark owner "legitimately controls, or is controlled by," the domestic trademark owner "in respect to the nature and quality of the goods * * * in connection with which the mark is used" (J.A. 56).[47] Treasury

[45] In 1937, articles 517 to 522 were renumbered as articles 536 to 541. They were renumbered as sections 11.14 to 11.17 in 1943 and retained that designation until 1972.

[46] The court of appeals recognized this consistency, but suggested that the Treasury Department's regulation interpreted only Section 27 of the Trademark Act of 1905, citing a statement by the *United States Tariff Commission* in hearings, conducted in 1944, on legislation that would become the Lanham Act (Pet. App. 24a). That certainly was not (and is not) the view of the *Treasury Department*, the cabinet department that Congress has charged with administration of the statute. The Treasury Department specifically cited Section 526 in issuing and reissuing the regulations (J.A. 27, 39, 45-46). And it certainly was not (and is not) the view of the Commissioner of Customs who, in subsequent correspondence to Senator Douglas (J.A. 52-54), stated that Section 526 is inapplicable "if the United States trademark owner and the owner of the foreign rights to the same mark are one and the same person" (J.A. 53). He further noted that a "foreign subsidiary or licensee of the United States trade-mark owner is considered to stand in the same shoes as such trade-mark owner" (*ibid.*).

[47] The revised regulation also deleted the prior reference to Section 526, but this change was plainly inadvertent. Contemporary commentators uniformly recognized that the regulation interpreted Section 526. See Note, *Trade-Mark Infringement: The Power of an American Trade-Mark Owner to Prevent the Importation of the Authentic Product Manufactured by a Foreign Company*, 64 Yale L.J. 557 (1955); Derenberg, *The Seventh Year of Administration of the Lanham Trade-Mark Act of 1946*, 44 Trademark Rep. 991 (1954); *Important Changes in the Customs Regulations Concerning Recordation of Trade-Marks and Trade Names*, 44 Trademark Rep. 131, 134 (1954).



retained that exception until 1959 (see T.D. 54932 (J.A. 60-61)), when it sought legislation that would expressly deny protection to a broader class of "affiliated companies" as well.[48] Congress failed to act on that legis-

[48] The reason for the 1959 regulatory revision is somewhat complex, but does not undermine the consistency of the Treasury Department's interpretation. Shortly after the 1953 regulatory revision, the Treasury Department sought legislation that would confirm its regulations and extend the exception to include all affiliated companies. See S. 2540, 83d Cong., 2d Sess. (1954) (the Wiley bill); H.R. 9476, 83d Cong., 2d Sess. (1954) (the Byrnes bill); see also S. Rep. 2266, 83d Cong., 2d Sess. 9 (1954); *Hearing on S. 2540 before a Subcomm. of the Senate Comm. on the Judiciary*, 83d Cong., 2d Sess. 93-97 (1954); *Hearings on H.R. 9476 Before the House Comm. on Ways & Means*, 83d Cong., 2d Sess. 6, 9 (1954); see generally Note, *supra*, 64 Yale L.J. at 560-561; Derenberg, *supra*, 44 Trademark Rep. at 998. The legislation was not enacted. Meanwhile, the Justice Department's Antitrust Division brought an action urging a judicial construction of Section 526 that would achieve essentially the same result. See *United States* v. *Guerlain*, 155 F. Supp. 77 (S.D.N.Y. 1957), vacated and remanded, 358 U.S. 915 (1958), dismissed, 172 F. Supp. 107 (S.D.N.Y. 1959). See also Recent case, 71 Harv. L. Rev. 564 (1958); Derenberg, *supra*, 44 Trademark Rep. at 998; Note, *supra*, 64 Yale L.J. at 560-561. The district court accepted the Antitrust Division's construction (155 F. Supp. at 80); however, Solicitor General Rankin declined to defend that judgment in this Court. See *Guerlain, Inc.* v. *United States*, No. 24 (1958 Term), Motion to Vacate Judgments. He stated that the Antitrust Division's interpretation "is permissible in the light of the relevant legislative history" (*id.* at 7), but added that Customs found itself "legally contrained to grant the claim of statutory protection invoked by the appellants" (*ibid.*), presumably because the agency either had concluded that the appellants did not fall within the "related company" exception or had lacked sufficient information to make that regulatory determination. See Atwood, *Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs*, 59 Trademark Rep. 301, 307 (1969); see also *Developments in the Law: Trademarks and Un-*

lation. Meanwhile, Customs continued, under its "same company" exception, to deny Section 526's protection to wholly owned subsidiaries and companies subject to common corporate control.[49] In 1972, following notice and public comment (35 Fed. Reg. 19269 (1970)),[50] the Treasury Department issued the present Customs Service regulation, which clarifies and continues the practices established over 50 years ago.

Thus, while there has been some change in the definition of the exception, the Treasury Department's regulations have at all times during the past one-half century denied the protection of Section 526 where the foreign and domestic trademark owners are the same or closely related firms. For 17 years, the Treasury Department permitted importation of trademarked goods when the

*fair Competition*, 68 Harv. L. Rev. 814, 914 (1955). Solicitor General Rankin proposed that, in light of this conflict, this Court should vacate the judgments and the government would seek legislation "to make it clear that trademark protection is not available to prohibit the importation of a product legitimately marked by an affiliate of the trademark owner" (Motion to Vacate Judgments at 7-8). The Court followed that suggestion and the district court dismissed the actions (172 F. Supp. at 108). The government submitted its promised legislation the following year. H.R. 7234, 86th Cong., 1st Sess. (1959) (the Celler bill). Meanwhile, the Treasury Department dropped the "related company" exception from its regulations (while retaining the "same company" exception), apparently in response to the pending legislation and difficulties in applying that standard (J.A. 60).

[49] See T.D. 69-12 (1968) (J.A. 67); Letter from Deputy Commissioner Flinn to Felix V. Levitan (Mar. 15, 1963) (J.A. 63-64); Letter from Deputy Commissioner Flinn to Walter A. Slowinski (July 2, 1962) (J.A. 62); see also Atwood, *supra*, 59 Trademark Rep. at 310 ("Related companies may or may not be denied full protection depending on ownership and control as viewed against the background of Bourjois v. Katzel, Bourjois v. Aldridge, and Section 526." (footnotes omitted)); see generally *id.* at 311-317.

[50] Apparently, neither the private petitioners nor COPIAT or any of its members (see Br. in Opp. 1a-2a), participated in the rule-making (see J.A. 75-76).



foreign and domestic trademark owners were the "same person," a phrase understood to include parent and subsidiary. In the following five-year period, the regulation contained the somewhat broader term "related company." For the last 27 years, the Treasury Department has followed an interpretation that permits importation in common ownership or control situations.

Congress has revisited Section 526 on numerous occasions over the past fifty years and has never stated any disagreement with the Treasury Department's regulations.[51] Congress acknowledged the present Customs Service regulation, with apparent approval, when it passed the Customs Procedural Reform and Simplification Act

[51] Congress revisited Section 526 on a recurring basis from the 1940s to the present. It considered the provision in hearings preceding passage of the Lanham Act, where the U.S. Tariff Commission described (albeit incorrectly, see note 46, *supra*) the Treasury Department's regulations. See *Hearings on H.R. 82 Before a Subcomm. of the Senate Comm. on Patents*, 78th Cong., 2d Sess. 79-91 (1944). Congress addressed Section 526 again in the Act of July 22, 1954, ch. 558, 68 Stat. 497 *et seq.*, which, among other matters, exempted the Virgin Islands from Section 526's provisions. See 48 U.S.C. 1643. As we have already mentioned (note 48, *supra*), Congress visited Section 526 again that year when it considered legislation addressing "affiliated companies" under the Wiley and Byrnes bills, and in 1959 when it considered similar legislation under the Celler bill. In 1959, Congress also considered (but did not report or enact) a bill that would have prohibited the sale of goods of foreign manufacture bearing U.S. trademarks. See H.R. 7967, 86th Cong., 1st Sess. (1959) (the Toll bill). And in 1968, Congress considered, but did not pass, a bill that would have repealed Section 526 completely. See S. 3713, 90th Cong., 2d Sess. (the McClellan bill). This Court has noted that deference is "particularly appropriate where * * * an agency's interpretation involves issues of considerable public controversy and Congress has not acted to correct any misperception of its statutory objectives." *United States* v. *Rutherford*, 442 U.S. 544, 554 (1979); see also *Haig* v. *Agee*, 453 U.S. 280, 301 (1981); *Red Lion Broadcasting Co.* v. *FCC*, 395 U.S. 367, 381-382 (1969). Section 526's history suggests, at a minimum, that congressional inaction cannot be attributed to ignorance of the issue.

of 1978 (CPRSA), Pub. L. No. 95-410, 92 Stat. 888 *et seq.*, and the Trademark Counterfeiting Act of 1984 (TCA), Pub. L. No. 98-473, Ch. XV, 98 Stat. 2178 *et seq.* Under these circumstances, the Treasury Department's interpretation is entitled to special deference. See, *e.g.*, *CFTC* v. *Schor*, No. 85-621 (July 7, 1986).[52]

The CPRSA amended Section 526 to create the so-called "tourist" exception to the section's import prohibitions. The courts had long construed Section 526 to exclude foreign manufactured goods bearing a U.S. trademark regardless of whether the importer was a commercial enterprise or an American tourist returning from abroad. See *Sturges*, 48 F.2d at 1037. The CPRSA permitted American tourists to return from abroad with limited quantities of trademarked merchandise for their personal use. See 19 U.S.C. 1526(d). The House report describing that amendment specifically alluded to the Customs Service regulation, stating:

> This section has been consistently interpreted by the United States Customs Service for the past 20 years as excluding from protection foreign-produced merchandise bearing a genuine trademark created, owned, and registered by a citizen of the United States if the foreign producer has been authorized by the American trademark owners to produce and sell abroad goods bearing the recorded trademark.

H.R. Rep. 95-621, 95th Cong., 1st Sess. 27 (1977). Congress again took note of the Treasury Department's interpretation when it enacted the TCA. That statute established criminal sanctions and other remedies "to help combat the mushrooming traffic in counterfeit goods and services." S. Rep. 98-526, 98th Cong., 2d Sess. 2 (1982).

[52] See also, *e.g.*, *Young* v. *Community Nutrition Institute*, No. 85-664 (June 17, 1986), slip op. 9; *FDIC* v. *Philadelphia Gear Corp.*, No. 84-1972, slip op. 11; *United States* v. *Rutherford*, 442 U.S. 544, 554 n.10 (1979); *Chemehuevi Tribe* v. *FPC*, 420 U.S. 395, 410 (1975); *NLRB* v. *Bell Aerospace Co.*, 416 U.S. at 274-275.



However, the Senate Committee on the Judiciary was careful to emphasize that the legislation "does not include within its coverage so-called 'gray market' goods" (*id.* at 3). The Committee stated (*ibid.*):

> The importation of such goods is legal under certain circumstances. For example, the Treasury Department has long interpreted section 526 of the Tariff Act of 1930 * * * to permit the importation of such goods when the foreign and domestic users of the trademark are affiliated through common ownership and control. *See* 19 C.F.R. 133.21(c).

2. It is not surprising, given the Treasury Department's longstanding interpretation of Section 526, an interpretation specifically noted by the Congress, that a large segment of the domestic retailing industry has placed substantial investment-backed reliance on the Customs Service regulation. The existence of such reliance interests provides another reason why the Treasury Department's interpretation is entitled to particular deference. See *Zenith Radio Corp.* v. *United States*, 437 U.S. at 457.

The Customs Service regulation was issued in its present form (after notice and comment) in 1972 and has remained unchanged for 15 years. During that period, many domestic retailers, such as K mart Corporation and 47th Street Photo, have built substantial businesses and associated consumer goodwill based on the availability of parallel imports. The actual volume of parallel imports may be open to debate, but there can be no doubt that many domestic retailers (and their customers) now rely on parallel imports as their preferred source for foreign-made merchandise.

If this Court were to invalidate the Customs Service regulation, that segment of the domestic retailing industry would be seriously injured. Many such retailers, including small enterprises that have made substantial

investments in justifiable reliance on the regulation, could conceivably be forced out of business. "In light of these substantial reliance interests, the longstanding administrative construction of the statute should 'not be disturbed except for cogent reasons.'" *Zenith Radio Corp.*, 437 U.S. at 457-458 (quoting *McLoren* v. *Fleischer*, 256 U.S. 477, 481 (1921)); accord *Udall* v. *Tallman*, 380 U.S. 1, 18 (1965).

It is particularly appropriate for the Court not to disturb legitimate commercial expectations in this instance. Numerous lower courts have upheld the Customs Service regulation.[53] And both Congress and the Administration are reviewing the government's present policy in this area and are attempting to learn more about the parallel importation phenomenon.[54] Thus, COPIAT's

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[53] See note 11, *supra*. The district courts have generally upheld the Customs Service regulation as a reasonable interpretation of Section 526 (Pet. App. 48a; *Olympus Corp.*, 627 F. Supp. at 922; *Vivitar Corp.*, 593 F. Supp. at 436; see also *Guerlain*, 155 F. Supp. at 83), while the courts of appeals have sustained the regulation as a legitimate exercise of enforcement discretion (see *Olympus Corp.*, 792 F.2d at 320; *Vivitar Corp.*, 761 F.2d at 1571). We do not believe that the Customs Service regulation should be viewed as based solely on enforcement considerations. It does, however, reflect an exercise of enforcement discretion in the sense that it represents an agency's considered judgment that, absent clearer guidance from Congress, the agency should devote its enforcement resources to the problem that the legislative history indicates was Congress's specific concern.

[54] Last year, Congress commenced consideration of legislation that would squarely address the issue. Senator Chafee introduced a bill that would amend Section 526 to incorporate the Customs Service regulation. See S. 2614, 99th Cong., 2d Sess. (1986); 132 Cong. Rec. S8709, S8741-S8743 (daily ed. June 26, 1986). The Senate promptly held hearings on this legislation in which both the private petitioners and COPIAT participated. See *Gray Market Imports: Hearing on S. 2614 Before the Subcomm. on International Trade of the Senate Comm. on Finance*, 99th Cong., 2d Sess. (1986). We expect that a similar bill, as well as alternative parallel import legislation, will be introduced this year. And, as we



members could ultimately receive the protection they demand as a result of a congressional or administrative policy judgment. But if this Court invalidates the Customs Service regulation, and Congress later concludes that the regulation states the appropriate policy, it may be impossible for Congress to restore the status quo ante. See 132 Cong. Rec. S8742 (daily ed. June 26, 1986) (Sen. Chafee).

In sum, the Treasury Department has acted well within its powers under 19 U.S.C. 1624 in issuing the Customs Service regulation. That longstanding regulation reasonably interprets and implements Congress's purposes in enacting Section 526 of the 1930 Tariff Act. This Court should give particular deference to the Treasury Department's expert judgment in this complex and sensitive area.

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have already noted (page 5, *supra*), the Administration is presently reviewing policy options with respect to parallel imports. Many affected parties, including K mart, 47th Street Photo and COPIAT, are participating in the legislative and administrative review. Congress and the Executive Branch, unlike the courts, can evaluate competing arguments from both a policy and a legal perspective and can then determine whether claims of price discrimination or "free riding" are valid.

## CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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FEBRUARY 1987

## ADDENDUM

## STATUTE AND REGULATION INVOLVED

Section 526 of the Tariff Act of 1930, 19 U.S.C. 1526, provides in pertinent part:

§ 1526. *MERCHANDISE BEARING AMERICAN TRADE-MARK*

(a) *Importation prohibited.* Except as provided in subsection (d), it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of sections 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15, unless written consent of the owner of such trademark is produced at the time of making entry.

(b) *Seizure and forfeiture.* Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

(c) *Injunction and damages.* Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trademark and shall be liable for the same damages and profits provided for wrongful use of a trademark, under the provisions of section 81 to 109 of Title 15.

(d)(1) *Exemptions.* The trademark provisions of this section and section 1124 of Title 15, do not apply to the importation of articles accompanying any person arriving in the United States when such articles are for his personal use and not for sale if (A) such articles are within the limits of types and quantities determined by the Secretary pursuant to paragraph (2) of this subsection, and (B) such person has not been granted an exemption under this subsection within thirty days immediately preceding his arrival.

(2) *Publication in Federal Register.* The Secretary shall determine and publish in the Federal Register lists of the types of articles and the quantities of each which shall be entitled to the exemption provided by this subsection. In determining such quantities of particular types of trade-marked articles, the Secretary shall give such consideration as he deems necessary to the numbers of such articles usually purchased at retail for personal use.

(3) *Forfeitures.* If any article which has been exempted from the restrictions on importation of the trade-mark laws under this subsection is sold within one year after the date of importation, such article, or its value (to be recovered from the importer), is subject to forfeiture. A sale pursuant to a judicial order or in liquidation of the estate of a decedent is not subject to the provisions of this paragraph.

(4) *Rules and regulations.* The Secretary may prescribe such rules and regulations as may be necessary to carry out the provisions of this subsection.



The Customs Service regulation 19 C.F.R. 133.21 provides:

§ 133.21 *RESTRICTIONS ON IMPORTATION OF ARTICLES BEARING RECORDED TRADEMARKS AND TRADENAMES.*

(a) *Copying or simulating marks or names.* Articles of foreign or domestic manufacture bearing a mark or name copying or simulating a recorded trademark or trade name shall be denied entry and are subject to forfeiture as prohibited importations. A "copying or simulating" mark or name is an actual counterfeit of the recorded mark or name or is one which so resembles it as to be likely to cause the public to associate the copying or simulating mark with the recorded mark or name.

(b) *Identical trademark.* Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.

(c) *Restrictions not applicable.* The restrictions set forth in [paragraph (b) of] this section do not apply to imported articles when:

(1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;

(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§ 133.2(d) and 133.12(d));

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under the authorization of the U.S. owner;

(4) The objectionable mark is removed or

obliterated prior to importation in such a manner as to be illegible and incapable of being reconstituted, for example by:

(i) Grinding off imprinted trademarks wherever they appear;

(ii) Removing and disposing of plates bearing a trademark or trade name;

(5) The merchandise is imported by the recordant of the trademark or trade name or his designate;

(6) The recordant gives written consent to an importation of articles otherwise subject to the restrictions set forth in paragraphs (a) and (b) of this section, and such consent is furnished to appropriate Customs officials; or

(7) The articles of foreign manufacture bear a recorded trademark and the personal exemption is claimed and allowed under § 148.55 of this chapter.

(d) *Exceptions for articles bearing counterfeit trademarks.* The provisions of paragraph (c)(4) of this section are not applicable to articles bearing counterfeit trademarks at the time of importation (see § 133.24).

(Sec. 42, 60 Stat. 440, sec. 526, 46 Stat. 741; 15 U.S.C. 1124, 19 U.S.C. 1526.)

[T.D. 72-266, 37 FR 20678, Oct. 3, 1972, as amended by T.D. 79-159, 44 FR 31968, June 4, 1979]

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# PETITIONER'S

# BRIEF

(8) (8) (7)

Nos. 86-495, 86-624, and 86-625



IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

K MART CORPORATION,
*Petitioner*
v.
CARTIER, INC., *et al.*

47TH STREET PHOTO, INC.,
*Petitioner*
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

UNITED STATES OF AMERICA, *et al.*,
*Petitioners*
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

**BRIEF FOR PETITIONER 47TH STREET PHOTO, INC.**

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## QUESTIONS PRESENTED

1. Whether the Court of International Trade has exclusive jurisdiction over actions against the Customs Service challenging regulations that interpret a statutory prohibition against the importation of trademarked merchandise.

2. Whether the Customs Service's 1972 published regulations interpreting Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, consistently with Customs' interpretation of that Act since the mid-1930's, is a valid administrative construction of the statute.

## PARTIES TO THE PROCEEDING

47th Street Photo, Inc. has no parent, subsidiary or affiliated companies. The parties before the Court of Appeals were Coalition to Preserve the Integrity of American Trademarks, Plaintiff; Cartier, Inc., Plaintiff; Charles of Ritz Group, Ltd. (a subsidiary of Squibb Corporation), Plaintiff; United States of America, Defendant; James A. Baker III, Secretary of the Treasury, Defendant; William von Raab, Commissioner of Customs, Defendant; 47th Street Photo, Inc., Defendant-Intervenor; K mart Corporation, Defendant-Intervenor.

TABLE OF CONTENTS

TABLE OF CONTENTS—Continued





TABLE OF AUTHORITIES

*CASES:*

TABLE OF AUTHORITIES—Continued

Page





TABLE OF AUTHORITIES—Continued

Page



*FOREIGN CASES:*



*STATUTES:*

TABLE OF AUTHORITIES—Continued





TABLE OF AUTHORITIES—Continued

TABLE OF AUTHORITIES—Continued





TABLE OF AUTHORITIES—Continued

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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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**BRIEF FOR PETITIONER 47TH STREET PHOTO, INC.**

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## OPINIONS BELOW

The opinion of the court of appeals is reported at 790 F.2d 903 (Gov't Pet. App. 1a-32a). The opinion of the district court is reported at 598 F. Supp. 844 (Gov't Pet. App. 34a-38a).

## JURISDICTION

The decision of the court of appeals was issued on May 6, 1986. On July 18, 1986, the court of appeals denied a timely petition for rehearing. The petition for a writ of certiorari in No. 86-495 was filed on September 26, 1986, and the petitions in Nos. 86-624 and 86-625 were filed on October 16, 1986. The writs were granted and the cases consolidated for argument on December 8, 1986. 107 S. Ct. 642. The jurisdiction of this Court rests on 28 U.S.C. § 1254.

## STATUTES AND REGULATIONS INVOLVED

The relevant statutes and regulations, Section 201 of the Customs Court Act of 1980, 28 U.S.C. § 1581, Section 526(a) of the Tariff Act of 1930, 19 U.S.C. § 1526(a), and 19 C.F.R. § 133.21 (37 Fed. Reg. 20678 (1972), appear in an Appendix to this brief at pp. 1a-3a, *infra*.

## STATEMENT

### Introduction

Foreign manufacturers of consumer goods such as cameras and watches frequently seek to sell their products at significantly higher prices in the United States than in foreign markets. The merchandise is authentic and identical in both American and foreign markets, and it bears the same authorized trademark. But by establishing a subsidiary American corporation, assigning to it the U.S. trademark, and granting it exclusive American distribution rights, the foreign manufacturer attempts to limit the flow of his products to the United States and thereby to maintain higher prices here than in Europe or in the Far East.



For at least fifty years, the Customs Service has permitted the importation into the United States of authentic trademarked goods manufactured abroad if the American trademark owner is a subsidiary or parent of the foreign manufacturer of the goods. This practice of "parallel importation" or "gray market importation" has benefited American consumers by bringing prices for such goods in line with those charged in foreign markets.

Three lawsuits against the Customs Service were initiated in federal courts in early 1984 by parties interested in prohibiting parallel or gray market imports. The first was brought in January 1984 in the Court of International Trade by Vivitar Corporation. The second was this case, initiated in the District Court for the District of Columbia in February 1984 by an *ad hoc* trade association formed, for the purpose of stopping parallel importation, by American subsidiaries or parents of companies manufacturing trademarked goods abroad. The third lawsuit was brought in the Eastern District of New York in March 1984 by Olympus Corporation, an American subsidiary of a Japanese manufacturer of photographic and optical products.

### 1. Rulings on Jurisdiction

The government moved to dismiss the case brought by Vivitar in the Court of International Trade on the ground that the Court lacked jurisdiction. On April 4, 1984, the Court of International Trade denied the government's motion to dismiss. *Vivitar Corp. v. United States*, 585 F. Supp. 1419 (CIT 1984). The Court of Appeals for the Federal Circuit sustained the jurisdictional ruling. *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985). The jurisdictional issue was not raised in Vivitar's petition for a writ of certiorari. *See* Petition for a Writ of Certiorari, *Vivitar Corp. v. United States*, No. 85-411, *cert. denied*, —— U.S. ——, 106 S. Ct. 791 (1986).

Two district courts subsequently disagreed with the jurisdictional ruling of the Court of International Trade. *COPIAT v. United States*, 598 F. Supp. 844, 847 (D.D.C.

1984); *Olympus Corp. v. United States*, No. CV-84-0920, Order of November 15, 1984 (reproduced as Appendix B to our Petition for Writ of Certiorari). *See* 627 F. Supp. 911, 914. The District of Columbia and Second Circuits affirmed the jurisdictional rulings of the district courts. *COPIAT v. United States*, 790 F.2d 903, 905-907 (D.C. Cir. 1986); *Olympus Corp. v. United States*, 792 F.2d 315, 317-319 (2d Cir. 1986), Petition for Writ of Certiorari pending, No. 86-757.

### 2. Rulings on the Merits

In all three trial courts, the plaintiffs contended that the Customs Service had issued regulations in 1972 that violated Section 526 of the Tariff Act of 1922, as re-enacted in the Tariff Act of 1930. All three trial courts dismissed the complaints, rejecting the challenge to the Customs Service regulations. Judges Restani (Court of International Trade), Johnson (District of Columbia), and Sifton (Eastern District of New York) ruled that the 1922 Congress intended only to protect independent American businesses, not affiliates of the foreign producers of trademarked goods.

The appellate courts arrived at differing conclusions. The Court of Appeals for the Federal Circuit held that the regulations were "a reasonable exercise of administratively initiated enforcement" (761 F.2d at 1571). The second federal appellate decision was the ruling of the court of appeals in this case. The court below held that the challenged Customs regulations conflict with Section 526 of the Tariff Act and are, therefore, unlawful. The third federal appellate ruling was issued by the Court of Appeals for the Second Circuit in *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986). By a 2-to-1 vote, the Second Circuit disagreed with the D.C. Circuit's ruling in the present case. The Second Circuit held that Congress' knowing acquiescence in the "consistent policy" followed by Customs amounted to legislative ratification of the agency's interpretation.



## INTRODUCTION AND SUMMARY OF ARGUMENT

In 1922 Congress enacted Section 526 of the Tariff Act—a law that gave an "owner" of a trademark registered in the United States Patent Office the right to bar the importation of any merchandise bearing that trademark—even if the mark had been lawfully affixed in the country of manufacture. The law limited that statutory right to "owners" who are both citizens and domiciliaries of the United States. Foreign citizens or domiciliaries were deliberately given no equivalent rights. It is undisputed, therefore, that if an American trademark is "owned" by a foreign national or domiciliary or by a foreign corporation, that "owner" has no authority under the 1922 statute to exclude authentic goods bearing the trademark from the United States.

The central legal issue in this case is whether the right to exclude conferred by the 1922 law extends to corporate "owners" who, albeit technically "created or organized" in the United States, are actually controlled by foreign corporations. Does the statutory word "owned" mean that the Executive Branch agency administering the law may not look beyond the formality of corporate "ownership" in effectuating Congressional intent?

Whether a foreign corporation could avoid the requirements of Section 526 by establishing a U.S. subsidiary to control distribution here was not explicitly addressed by the Commissioner of Customs—who was empowered to administer the provisions of the Tariff Act—until 1936. At that time, Customs issued a regulation explicitly invoking Section 526, and declaring that the bar on importation was not to apply if the owner of the foreign trademark and the owner of the American trademark are "the same person, partnership, association or corporation."

This policy controlled the importation of trademarked goods through the 1950's and the 1960's. Customs decisions and official correspondence confirm that "for many years" the agency had been permitting parallel importation of authentic trademarked goods if the foreign manu-

facturer was the parent or subsidiary of the American trademark owner. And in 1970, the Customs policy was incorporated into formal regulations that were published for public comment and were issued in final regulatory form on October 3, 1972. The validity of those regulations is challenged in this lawsuit, which was instituted twelve years after adoption of the regulations.

We believe that the Customs Service's interpretation of Section 526, as incorporated in the 1972 regulations, is the correct construction of the law. It gives substance and real meaning to the concept of American "ownership" of trademarks that Congress deliberately included in Section 526. It is most consistent with the reasons why Section 526 was hurriedly drafted and enacted in 1922—to protect American businesses from fraud"—while otherwise permitting price competition that benefits consumers.

1. The court of appeals erroneously believed that Section 526, if read "literally," invalidates the Customs regulations. In fact, the "literal" terms of Section 526 require that a corporate "owner" and registrant of the American trademark rights both be "created or organized within the United States" and be "domiciled in the United States." Whether an American distribution subsidiary of a multi-national foreign corporation satisfies these criteria is not resolved by the "literal" terms of the law. Indeed, if these statutory requirements are not to be nugatory in practice, they must require something more than the creation by a foreign corporation of an American shell that becomes the nominal holder of American trademark rights.

2. It is well established by decisions of this Court that "great weight" must be given "to any reasonable construction of a regulatory statute adopted by the agency charged with the enforcement of that statute." *Clarke v. Securities Industry Ass'n*, —— U.S. ——, 107 S. Ct. 750, 759 (1987), *quoting Investment Company Institute v. Camp*, 401 U.S. 617, 626-627 (1971). It is undisputed that the Customs Service has applied its in-



terpretation of Section 526 at least since 1972. Customs decisions and correspondence indicate that the same policy was also applied in the 1950's and 1960's, and was even then viewed as a rule that had been in effect "for many years." The court of appeals erroneously minimized these pervasive indicia of a longstanding Customs interpretation of Section 526. Neither the court below nor the plaintiffs can point, however, to a single time when Customs issued a regulation or public decision supporting their reading of Section 526.

3. Customs' policy was well-known to Congress on occasions when Congress was considering various amendments to the customs laws. A House Report issued in 1977 declared that Customs had "consistently interpreted" Section 526 "for the past 20 years" as inapplicable when the foreign trademark is affixed with the authority of the American trademark owner. Congress chose in 1978 not to amend Section 526 to change Customs policy, even though it enacted many amendments in the Customs Procedural Reform and Simplification Act. Similarly, a more recent Congress, in enacting the Trademark Counterfeiting Act of 1984, left Section 526 intact after being told by the Senate Judiciary Committee that parallel importation would not be affected because Customs "has long interpreted Section 526 . . . to permit the importation of such goods when the foreign and domestic users of the trademark are affiliated through common ownership and control." These are compelling indications of Congressional acquiescence in the Customs Service's interpretation of Section 526 and require judicial confirmation of that construction.

4. Although questions of economic policy are for Congress, and not for this Court, to decide, it is relevant to note that Customs' interpretation implements sound economic policy that is consistent with the policies followed by nearly all economically developed nations. The court of appeals acknowledged that its reading of Section 526 "would deprive American consumers of the benefit of imports at prices lower than those maintained by foreign producers through exclusive distribution by their Ameri-

can subsidiaries" and that since America's trading partners do not forbid parallel imports, the court's reading of Section 526 "in today's international market constitutes a sort of economic unilateral disarmament." 790 F.2d at 917 (Gov't Pet. App. 30a-31a). These highly undesirable consequences should not be cavalierly inflicted on American consumers and on truly independent American businesses competing in the international marketplace, particularly where the Executive Branch has regularly followed a course that protects American consumers and American businesses, and Congress has deliberately decided not to interrupt or otherwise interfere with that administrative practice. Moreover, the court below erred in assuming that the Customs practice rested exclusively or largely on its understanding of domestic antitrust policy, which has undergone change in recent years. Antitrust policy was a very minor factor in the Customs Service's administration of Section 526, and, even as recently modified, antitrust principles would not support the system that the plaintiffs seek to impose: a government-enforced two-tiered pricing system designed to protect the profit margins of selected retailers and to ensure maximum off-shore profits for multi-national corporations.

5. Although the court of appeals did not reach the question whether the Customs regulations are consistent with the Lanham Act, as the district court found, trademark principles strongly support the Customs Service regulations. Section 42 of the Lanham Act protects trademark owners against goods bearing trademarks that "copy or simulate" their marks, not against the sale of genuine goods marked by the registered trademark owner or with his authority. The Congress was fully and explicitly informed of Customs' policy when it enacted the Lanham Act and made no effort to alter that policy in any way.

6. Before discussing the merits of the statutory issue, we address a preliminary legal question that alternatively supports the district court's judgment of dismissal. The claim made by the plaintiffs in this case is, by reason of the Customs Court Act of 1980, assigned to the exclusive jurisdiction of the Court of International Trade. A comprehensive "residual" subsection of the jurisdictional assignment to that specialized court directs to it all cases against the United States involving "embargoes or other quantitative restrictions" on importation. Since Section 526 imposes an "embargo" or "other quantitative restriction" on the importation of trademarked goods, suits to enforce a claimed right under Section 526 come within the "catch-all" provision. Such suits are also corollary to the Court of International Trade's jurdisdiction over the denial of protests under Section 515 of the Tariff Act of 1930. By recognizing exclusive jurisdiction over such claims in the Court of International Trade, this Court will prevent multiplicity of actions, forum-shopping, and the kind of uncertainty over the appropriate forum that led to the 1980 enactment of the Customs Court Act.



## ARGUMENT

### I. THE COURT OF INTERNATIONAL TRADE HAS EXCLUSIVE JURISDICTION OVER THIS ACTION AGAINST THE UNITED STATES

The Customs Court Act of 1980, 28 U.S.C. § 1581, confers exclusive jurisdiction over trade-related cases on the Court of International Trade ("CIT"), from which appeals may be taken to the Court of Appeals for the Federal Circuit. The district courts are divested of jurisdiction over any action which this statute assigns to the CIT. Legal issues identical to those presented in this case have been litigated in the CIT and, on appeal, in the Federal Circuit.[1] These specialized courts held that, by reason of 28 U.S.C. § 1581, they had exclusive jurisdiction to resolve the issues so presented.

The court below disagreed with Federal Circuit's determination that it had exclusive jurisdiction, holding

[1] *Vivitar Corp. v. United States*, 585 F. Supp. 1419, 593 F. Supp. 420 (CIT 1984), *aff'd*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, —— U.S. ——, 106 S. Ct. 791 (1986).

that the plaintiffs' suit against the United States "does not fall within any of the specific provisions of 28 U.S.C. § 1581." 790 F.2d at 907 (Gov't Pet. App. 8a). Rather, it held that the district court had general federal question jurisdiction under the Lanham Act. 790 F.2d at 905 (Gov't Pet. App. 4a). *Accord, Olympus Corp. v. United States*, 792 F.2d 315, 317-319 (2d Cir. 1986). In fact, the CIT had jurisdiction over the plaintiffs' claim under either 28 U.S.C. § 1581(i)(3) or § 1581 (i)(4).

### A. This Is a Suit Arising Out of a Law Providing for "Embargoes or Other Quantitative Restrictions on the Importation of Merchandise"

The CIT is the successor to the Customs Court, which until 1980 exercised relatively limited jurisdiction to review the denials of various "protests." [2] The Customs Court Act of 1980 substantially expanded the jurisdiction of the new court, and changed its name to reflect these increased responsibilities. Much of the CIT's jurisdiction was conferred in a "residual" subsection (i) which provides, in pertinent part, that the CIT has exclusive jurisdiction over:

> any civil action commenced against the United States, its agencies, or its officers, that arises out of any law of the United States providing for—
>
> * * * *
>
> (3) embargoes or other quantitative restrictions on the importation of merchandise for reasons other than the protection of the public health or safety; . . .

#### 1. *The Statutory Language*

It is undisputed that this is an action "against the United States," as well as against its "agencies" and "officers." The claim arises out of a "law of the United States"— to wit, Section 526 of the Tariff Act—that pro-

[2] *See* 28 U.S.C. § 1582 (1976); H.R. Rep. No. 1235, 96th Cong., 2d Sess. 18-19, *reprinted in* 1980 U.S. Code Cong. & Ad. News 3729-3730 (hereinafter "House Report").



vides for an "embargo" or "quantitative restriction on the importation of merchandise." Section 526 excludes certain merchandise from the United States altogether. A prohibition on importation is plainly an "embargo or other quantitative restriction." [3]

Contrary to the approach it took when it considered the merits of the plaintiff's claim (*see* pp. 19-22, *infra*), the court below refused to read the applicable statute literally when it decided the threshold jurisdictional issue. The decision below acknowledged that "Section 526 undoubtedly prevents certain goods from entering the country (those with trademarks identical to American trademarks)," but it denied that the prohibition on importation of those goods qualified is an "embargo." 790 F.2d at 907 (Gov't Pet. App. 7a). Instead, the court below read an unwritten condition into the jurisdiction provision: "Section 1581(i)(3) only extends to quotas and embargoes *arising out of trade policy*, the sort of measures that have traditionally limited the importation of shoes, textiles, automobiles, and the like." 790 F.2d at 907 (Gov't Pet. App. 8a) (emphasis added).

But subsection (3) specifies the only kinds of "embargoes or quantitative restrictions on importation" that are beyond the exclusive jurisdictional grant: those based on "the protection of the public health or safety." *All* quotas and embargoes based on "reasons other than the protection of the public health or safety"—including reasons of "trade policy"—are within the exclusive jurisdiction of the CIT.

When Congress chose to define the jurisdictional grant negatively by specifying "reasons other than the protection of the public health or safety" rather than by declaring positively that it is to apply only for "trade policy reasons," it rejected the very limited position of the court below. Nor was the statutory qualification on the

[3] One dictionary definition of "embargo" is "a prohibition imposed by law upon commerce either in general or in one or more of its branches." *Webster's New International Dictionary* (3d ed. 1971).

jurisdiction of the CIT hastily or casually drafted. The House Judiciary Committee's report on the legislation specifically addressed the drafting of subsection (3). House Report 47-48 & nn. 50-51, *reprinted in* 1980 U.S. Code Cong. & Ad. News at 3758-3760. It quoted that subsection in a footnote, *with emphasis on the qualifying clause,* and explained that it had adopted this "more precise subsection (i) in order to remove any confusion over the jurisdiction" of the CIT.[4] Since the language of the statute includes a specific exception to a general category defined in the law whose scope was carefully considered, Congress must have intended this limited exception to be the only exclusion from the grant of jurisdiction. *Andrus v. Glover Construction Co.*, 446 U.S. 608, 616 (1980); *Tennessee Valley Authority v. Hill*, 437 U.S. 153, 188 (1978); 2A *Sutherland Statutory Construction*, § 47.11, at 145 (1984 rev. ed.).

Though its scope is in dispute, Section 526 of the Tariff Act clearly excludes merchandise "for reasons other than protection of public health and safety." Consequently, whether or not it expresses "trade policy" or is "the sort of measure[] that [has] traditionally limited the importation of shoes, textiles, automobiles and the like" (790 F.2d at 907; Gov't Pet. App. 8a), it falls within the category of laws described in subsection (3).

### 2. *The Legislative History*

The legislative history, both as to the origins of the precise language used in the "residual" jurisdiction provision and as to the general purposes of the statute, refutes any implied limitation to "trade policy" embargoes or quotas. The primary impetus for the passage of the Customs Court Act of 1980 was Congress' growing recognition, in the late 1970's, that there was widespread and wasteful confusion over the division of jurisdiction between the Customs Court and the district courts. To address this problem, a series of bills was introduced whose common feature was a substantial expansion of the Customs Court's jurisdiction and authority.[5] Much of this proposed expanded jurisdiction was set forth in "residual" jurisdictional provisions, which, as modified, became Section 1581(i).[6]

[4] A number of witnesses in House hearings on the legislation were specifically asked to comment on how best to express Congress' intention to exclude certain prohibitions on imports from the CIT's jurisdiction. *Customs Court Act of 1980: Hearings on H.R. 6394 Before the Subcomm. on Monopolies and Commercial Law of the House Comm. on the Judiciary*, 96th Cong., 2d Sess. 142, 215, 252-63, 280 (1980) (hereinafter "House Hearings").



The final language of the "residual" jurisdiction provision originated while the legislation was being considered by the House Judiciary Committee. Prior to that point, the residual provisions in all bills considered by the 96th Congress would have conferred CIT jurisdiction, *inter alia*, over cases against the federal government which (1) "arise directly from an import transaction" or "import transactions" and (2) "arise under" or "involve"

[5] S. 2857, 95th Cong., 2d Sess., 124 Cong. Rec. 9191-97 (1978); S. 1654, 96th Cong., 1st Sess. (1979); H.R. 6394, 96th Cong., 2d Sess. (1980); H.R. 7540, 96th Cong., 2d Sess. (1980).

[6] This subsection was immediately derived from three bills introduced in the 96th Congress. S. 1654 was referred to the Judiciary Committee, and was reported with amendments and passed by the Senate in 1979. S. 1654, 96th Cong., 1st Sess. (1979); 125 Cong. Rec. 22,333 (1979) (statement of Senator DeConcini); S. Rep. No. 466, 96th Cong., 2d Sess. (1979); 125 Cong. Rec. 36,624-31 (1979) (debate and passage). The House took up its own bill, H.R. 6394, the following year. After hearings before a subcommittee of the Judiciary Committee, the subcommittee drafted a "clean" bill, H.R. 7540 (June 10, 1980). House Report 1-17, 29, *reprinted in* 1980 U.S. Code Cong. & Ad. News at 3729, 3740-3741. The full Judiciary Committee made modifications to that bill, which included the version of the "residual jurisdiction" provision that was ultimately enacted, before reporting it to the floor of the House. H.R. 7540 (August 20, 1980); House Report 35, *reprinted in* 1980 U.S. Code Cong. & Ad. News at 3746-3747. This bill was passed by the House and Senate without change or substantial debate on the floor as the end of the term approached. 126 Cong. Rec. 26,546-61 (1980) (House consideration and passage); 126 Cong. Rec. 27,056-64 (1980) (Senate consideration and passage). In the House, the text of H.R. 7540 was substituted for S. 1654 and repassed as such.

certain enumerated statutes, including the Tariff Act of 1930.[7]

The House Judiciary Committee recast this language in two respects. It struck the language requiring that the suit "arise from an import transaction" and replaced the listing of specific statutes, including the Tariff Act, with descriptive categories. The Committee's report explained its preference for this "generic" approach as follows (House Report 33-34, *reprinted in* 1980 U.S. Code Cong. & Ad. News at 3744-3745):

> Additionally, there was concern that the listing of specific statutes would result in an inadvertent omission of a statute, thereby creating further confusion in the minds of international trade law litigants. In light of its concerns, the Subcommittee on Trade recommended a generic approach rather than a specific listing of statutes in an effort to provide greater protection for the rights of persons involved in disputes arising out of import transactions. In response to the concerns raised by the Subcommittee on Trade, the full Judiciary Committee adopted an amendment utilizing the generic approach. Under proposed section 1581(i) of H.R. 7540, as amended, the Court of International Trade has jurisdiction over those civil actions which arise out of a law of the United States pertaining to international trade.

This explanation of the language of Section 1581(i) clearly rebuts the view of the court below. Section 526 is a part of the Tariff Act of 1930, and, therefore, cases arising under it would unquestionably have been within the CIT's jurisdiction had earlier versions of the residual jurisdictional provision been enacted. When the House Committee chose a different "generic" drafting approach, its intention was not to exclude the statutes previously enumerated as a basis for CIT jurisdiction. Rather, the Committee's objective was to "provide greater protection," for persons invoking CIT jurisdiction, to avoid

[7] S. 1654, *supra*, § 302 (Aug. 2, 1979); S. 1654, *supra*, § 301; 125 Cong. Rec. 36,625 (1979); H.R. 6394, *supra*, § 201(a); H.R. 7540, *supra*, § 201 (June 10, 1980).



the "inadvertent omission of a statute" and thereby to give the CIT jurisdiction over all "civil actions which arise out of a law of the United States pertaining to international trade."[8]

The general purposes of the statute also foreclose the interpretation of Section 1581(i) adopted by the court below and the Second Circuit. A major purpose was to "eliminate confusion" as to the scope of the CIT's jurisdiction. As the House Report stated, with respect to the residual provision (House Report at 47, *reprinted in* 1980 U.S. Code Cong. & Ad. News at 3759):

> The purpose of this broad jurisdictional grant is to eliminate the confusion which currently exists as to the demarcation between the jurisdiction of the district courts and the Court of International Trade. This provision makes it clear that all suits of the type specified are properly commenced only in the Court of International Trade.[9]

Interpretations, like that of the court below, which add implied limitations on the jurisdiction of the CIT to those expressly stated are sure to add to the very "confusion" that Congress sought to reduce in 1980. The Federal Circuit and two other courts of appeals already differ on whether Section 1581(i)(3) carries an implied limitation to matters of "trade policy." Apart from disputes over whether the statute includes any such limitation, the application of such a standard would be virtually impossible. Except to observe briefly that Section 526 is not a paradigm quota on particular goods, the court below offered no explanation of how one is to determine whether a prohibition on imports reflects "trade policy" or not, particularly when its scope and intent are disputed.

The second major purpose of Section 1581 was to create:

[8] *See* 126 Cong. Rec. 26,554 (1980) (remands of Rep. Rodino).

[9] *See also, e.g.*, House Report 20, 27-28, 29-30, 33, *reprinted in* 1980 U.S. Code Cong. & Ad. News at 3731-3732, 3739-3742, 3744-3745; 126 Cong. Rec. 26,552 (1980) (remarks of Rep. Volkmer); S. Rep. No. 466, *supra*, 1-2, 4-5, 10; House Hearings 1.

a comprehensive system of judicial review of civil actions arising from import transactions, utilizing the specialized expertise of the United States Customs Court and the United States Court of Customs and Patent Appeals. This comprehensive system will ensure greater efficiency in judicial resources and uniformity in the judicial decisionmaking process.[10]

Congress' objectives of "comprehensiveness," "efficiency" and "uniformity" weigh heavily in favor of an inclusive interpretation of Section 1581(i) and against adding unexpressed limitations to the statute. The conflict between the District of Columbia Circuit and Second Circuit on the merits of this case provides dramatic evidence of how transferring cases from the CIT to the district courts can foster uncertainty and conflict that only this Court will be able to resolve.

Congress' decision to establish a "comprehensive system of judicial review" at the CIT also lays to rest any suggestion that that CIT's jurisdiction should be circumscribed to reflect supposed limitations on its expertise. The D.C. Circuit's opinion observed that the CIT's "expertise" was limited to "traditional Customs matters" and the Second Circuit suggested that "trademark matters" are "outside the expertise of the CIT." [11] However, the

[10] *Accord,* House Report 20, *reprinted in* 1980 U.S. Code Cong. & Ad. News at 3731. 126 Cong. Rec. 26,552 (1980) (remarks of Rep. McClory); 126 Cong. Rec. 27,063-64 (1980) (remarks of Senator DeConcini). *See* 125 Cong. Rec. 36,630-31 (1979) (remarks of Senator DeConcini regarding S. 1654). An intended effect of conferring this jurisdiction on the CIT was also to transfer cases from overburdened district courts to the then relatively underutilized Customs Court. 126 Cong. Rec. 26,552 (1980) (remarks of Rep. Volkmer). *See* S. Rep. No. 466, *supra* at 1-2; 125 Cong. Rec. 36,630-31 (1979) (remarks of Senator DeConcini).

[11] 790 F.2d at 907 (Gov't Pet. App. 8a); 792 F.2d at 318. In point of fact, the CIT has addressed trademark and copyright issues. *E.g., Schaper Mfg. Co. v. Regan,* 566 F. Supp. 894 (CIT 1983); *Lois Jeans & Jackets, U.S.A., Inc. v. United States,* 566 F. Supp. 1523 (CIT 1983). Further, it is ironic that courts that have claimed a greater degree of "expertise" for themselves have reached opposite conclusions on the merits of this dispute.



1980 Act was a substantial extension of CIT jurisdiction, and also conferred new remedial power [12] belying any notion that it should be construed by relation to the matters "traditionally" before the court. There is not a whisper in the legislative history of any concern on Congress' part, that the CIT was not equipped to handle all of the cases to which the language of Section 1581 extends. For these reasons, it would be improper to restrict the CIT's jurisdiction because of another court's concerns about the CIT's institutional capabilities.

In short, the explicit language of Section 1581(i)(3) includes this case and refutes any attempt to limit the CIT to cases arising from statutes expressing "trade policy"—which is itself an impractical and imprecise criterion. The legislative history confirms this conclusion, and it also accords with Congress' stated purposes of clarifying and extending CIT jurisdiction, and guaranteeing uniformity in cases addressing international trade.

### B. The CIT Has Exclusive Original Jurisdiction as a Corollary to Its "Protest Jurisdiction."

The Court of Appeals for the Federal Circuit also held that a determination as to the validity of Customs regulations implementing Section 526 was within the exclusive jurisdiction of the CIT "as a corollary to protest jurisdiction under 28 U.S.C. § 1581(a)." 761 F.2d at 1560. That alternative holding was correct.

Section 1581(a) confers exclusive jurisdiction on the CIT of

> any civil action commenced to contest the denial of a protest, in whole or in part, under section 515 of the Tariff Act of 1930.

Subsection (i)(4) also confers jurisdiction over any action against the United States that arises out of a law "providing for . . . administration and enforcement with respect to the matters referred to in" subsection (a). The District of Columbia and Second Circuits have held

[12] 28 U.S.C. § 1585.

that this limits the CIT to the protests themselves. The Federal Circuit held that the "matters referred to" include the statutes and regulations that are involved in such protests—in this case, the Customs regulations and procedures concerning parallel imports.

Both views are reasonable literal readings of a phrase that is not clear on its face: "with respect to the matters referred to." Nor is there specific legislative history that speaks to this issue. However, the Federal Circuit's reading conforms far more closely to the central purposes of the statute.

One such purpose was to "create a comprehensive system of judicial review of civil actions arising from import transactions." *See* pp. 15-16, *supra*. This goal would be frustrated if suits against the government arising from a single statute could be heard either by the CIT or by the district courts depending on their procedural context. If goods are excluded under Section 526, the importer may file a "protest" under Section 514(a)(4) of the Tariff Act, 19 U.S.C. § 1514(a)(4). The denial of such a protest would indisputably be reviewable, in the first instance, by the CIT under Section 1581(a). Hence, the CIT would have full authority to construe the statute on which exclusion was based.

In the present case, if the plaintiff is correct, goods that should be excluded are being admitted. This claim turns on the same issues as a protest against exclusion of the goods. Yet the rule applied by the court below means that the present lawsuit must be decided by the district courts. Such a division of authority undermines the "comprehensive system of judicial review" and "uniformity" in trade disputes contemplated by Congress. It makes the forum for resolution of disputes over international trade issues dependent on the government's initial position. If it favors domestic interests, the importer could protest and the CIT would have exclusive jurisdiction. If the importer is permitted to bring in his goods, the result is a district court action. No sensible purpose is served by dividing jurisdiction in this manner. The Federal Cir-



cuit's interpretation of Section 1581(i)(4) avoids these consequences and conforms to Congress' purpose in enacting a "residual" jurisdictional section.

For these reasons, the courts below lacked subject matter jurisdiction, which was conferred exclusively on the CIT. Accordingly, this case must be remanded with instructions to dismiss the complaint.

## II. THE LANGUAGE OF SECTION 526 CONFERS AUTHORITY TO EXCLUDE AUTHENTIC MERCHANDISE ONLY ON INDEPENDENT AMERICAN TRADEMARK OWNERS

Section 526 declares that it is unlawful to import into the United States

(1) any merchandise of foreign manufacture
(2) bearing a trademark
(3) owned by a citizen of the United States or a corporation organized within the United States, and
(4) registered in the Patent and Trademark Office by a person domiciled in the United States,
(5) if a copy of the certificate of registration is filed with the Secretary of the Treasury.

The third and fourth statutory elements limit the right to exclude merchandise to articles bearing a trademark "owned by a citizen of . . . the United States" and "registered . . . by a person domiciled in the United States." What does the word "owned" mean in the first of these quoted statutory fragments? And what does the word "domiciled" mean as applied to affiliates of foreign corporations?

Since there was a deliberate Congressional decision, reflected in the terms of Section 526, to limit the power to exclude merchandise to instances in which the "owner" is *both* an American corporation and a domiciliary of the United States, the statutory terms must be read carefully.[13] Even if read "literally," Section 526 may be in-

[13] It is significant that the only change in Section 526 between its passage by the Senate and its enactment related to the American

voked only by an "owner" that is an American corporation and is "domiciled" in the United States. A corporate affiliate of a multi-national foreign producer—be it a distribution subsidiary or an American corporate parent whose goods are produced and distributed abroad—does not qualify under Section 526.

This Court has, in recent years, construed terms that are more "clear" or "plain" on their face than the words "owned" and "domiciled" in Section 526. In *Washington Metropolitan Area Transit Authority v. Johnson*, 467 U.S. 925 (1984), the central issue was the meaning of the word "employer" in Section 5(a) of the Longshoremen's and Harbor Workers' Compensation Act. This Court noted that the statutory term "does not effortlessly embrace contractors," but it gave the word a broader interpretation in the LHWCA "than that word's ordinary meaning." 467 U.S. at 933. This "slightly strained reading" (467 U.S. at 934) was permissible in order to effectuate the policies of the legislation.

The Court took a similar approach in another 1984 case—*Secretary of the Interior v. California*, 464 U.S. 312 (1984)—which involved the Interior Department's sale of oil and gas leases off the coast of California. The governing statute required federal coordination with State agencies for "activities directly affecting the coastal zone." 16 U.S.C. § 1456(c)(1). Acknowledging that the words "directly affecting," if read literally, go beyond waters that are "in" the coastal zone, the majority of the Court reviewed the legislative history and determined that only activity "within" the coastal zone is included in the reach of the law. 464 U.S. at 321-324.

Decisions during this Term of Court support this approach. In *O'Connor v. United States*, —— U.S. ——, 107 S. Ct. 347 (1986), the central issue was whether a

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character of the trademark "owner." As initially passed, the law would have required only that the "registrant" be a domiciliary of the United States. 62 Cong. Rec. 11,602 (1922). "Ownership" by an American citizen or corporation was deliberately added in conference. H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922).



treaty declaring United States citizens "exempt from any taxes" granted an exemption only from Panamanian, and not American, taxes. A unanimous Court held that the "contextual case for limiting" the provision to Panamanian taxes was "overwhelmingly convincing." 107 S. Ct. at 350. *Accord, Kelly v. Robinson*, —— U.S. ——, 107 S. Ct. 353 (1986). *See also Jersey Shore State Bank v. United States*, 55 U.S.L.W. 4127 (U.S. Jan. 20, 1987); *Federal Election Comm'n v. Massachusetts Citizens for Life, Inc.*, —— U.S. ——, 107 S. Ct. 616 (1986). In construing a saving clause of the Clean Water Act, the Court rejected the most plain and direct meaning of the statutory language in *International Paper Co. v. Ouellette*, 55 U.S.L.W. 4138 (U.S. Jan. 21, 1987). The Court was satisfied with the conclusion that "the plain language of the provisions . . . by no means compels the result [respondents] seek." 55 U.S.L.W. at 4141. In this case there is similarly no "compulsion" to read the ambiguous terms of Section 526 as barring an examination of true ownership or real domicile.

The words chosen by Congress in 1922 did not, to be sure, explicitly distinguish between American corporations that are independent entities and those that own foreign subsidiaries or are owned by foreign parents. That does not mean, however, that Congress wanted to treat multi-national distributors just as independent American companies were treated. The difference between independent corporations and those that are subsidiaries was noted by this Court in *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984). The Court recognized the basic identity between a corporate parent and its corporate subsidiary and their "complete unity of interest." 467 U.S. at 771. The Court noted that the legal issue in that case was not "whether the term 'conspiracy' will bear a literal construction that includes parent corporations and their wholly owned subsidiaries." 467 U.S. at 776. Rather, the Court said, "the appropriate inquiry requires us to explain the logic underlying Congress' decision to exempt unilateral conduct

from § 1 scrutiny, and to assess whether that logic similarly excludes the conduct of a parent and its wholly owned subsidiary." *Id.*

By the same reasoning, the "appropriate inquiry" in this case is not the literal, technical meaning of "owner" or "domiciled" in Section 526. The critical question is why Congress required American ownership of the trademark and excluded foreign owners and their agents from the rights conferred by Section 526. It would conflict with the denial of Section 526 rights to foreign corporations to permit parents or subsidiaries of foreign corporations to invoke those rights. In this case, as in *Copperweld*, there is "a complete unity of interest" and "the subsidiary acts for the benefit of the parent." 467 U.S. at 771.

Subsections (1), (2) and (3) of 19 C.F.R. § 133.21(c), cover, respectively, the situation in which foreign and domestic trademarks are owned by "the same person or business entity," by "parent and subsidiary companies or [companies which] are otherwise subject to common ownership or control," and in which the articles of foreign manufacture "bear a recorded trademark . . . applied under authorization of the U.S. owner." That is *precisely* where Congress intended to draw the line—to protect American owners of a foreign trademark against importation of goods distributed abroad by unrelated parties. The statutory terms "owned" and "domiciled" should, therefore, be read as limiting Section 526 to truly independent American companies that are unaffiliated with foreign producers.

## III. THE LEGISLATIVE HISTORY OF SECTION 526 SUPPORTS A LIMITATION OF THE LAW TO INDEPENDENT AMERICAN TRADEMARK OWNERS

We turn now to the history of Section 526, which demonstrates overwhelmingly that Congress did not intend to confer the right to exclude authentic trademarked merchandise on foreign manufacturers or their subsidiaries (even if incorporated in the United States), but only on independent American concerns that had pur-



chased the American trademark rights in arms-length dealing.

### A. Section 526 Was Enacted to Protect the Financial Investments of Independent American Trademark Owners

#### 1. Bourjois v. Katzel

There is little quarrel as to why Congress enacted Section 526. Everyone acknowledges that it was a response to the decision of the Court of Appeals for the Second Circuit in *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), which was on appeal to this Court when Section 526 was introduced in the Senate. This Court ultimately reversed the Second Circuit (*A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923)), but not until after Section 526 was enacted.

*Bourjois v. Katzel* concerned the right to market in the United States face powder bearing the trademark "Java," that had been initially registered in the United States by a French manufacturer of the powder. The French manufacturer then "sold to the plaintiff for a large sum their business in the United States, with their good will and their trademarks, registered in the Patent Office." 260 U.S. at 690. The American purchaser reregistered the trademarks and sold the imported powder as its own to consumers in the United States.

By the time it brought suit, the plaintiff had taken pains to develop its own identity with American consumers, quite apart from that of the foreign manufacturer.[14] 260 U.S. at 691. Nevertheless, the court of ap-

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[14] The American company which was the petitioner in this Court, emphasized to the Court that it alone was identified with the product in the United States (Brief for Petitioner, No. 190, October Term, 1922, pp. 8-9, record citations omitted):

> The plaintiff's goods, due to the expenditure of a great deal of money for advertising during the last eight years—(the Court will take judicial notice that these particular years are probably the equivalent of a half century of ordinary untroubled years)—are widely and universally recognized throughout the whole of the United States as the output of this plaintiff and this recognition extends to the remotest

peals had held that the American trademark owner—the Bourjois Company—could not maintain a civil suit against a retailer who sold the powder in the United States after purchasing it in France from the authentic manufacturer. 275 F. at 543. The court of appeals ruled that because the defendant's French labels accurately identified the manufacturer of the face powder, no trademark right had been violated.

Before the *Bourjois v. Katzel* case could be decided by this Court, Congress proposed and enacted Section 526 of the 1922 Tariff Act. This Court arrived at the same result, less than three months later, in a short opinion by Justice Holmes. The Court did not refer to precedent or to the language of any statute; it emphasized the equities. On the particular facts of the case before it, the Court held that American trademark law gave the independent American owner of the registered trademark the legal and equitable right to enjoin anyone else—including the French producer of the goods, who had completely transferred its American rights—from selling the

quarters and sections of the country. Wherever and whenever a box of face powder appears upon the market in the United States like or similar to the plaintiff's standard package, it is, in the language of plaintiff's affiant O'Connell,

> "the indication and proof that the contents emanates from the New York Company and represents the selection, special treatments, packing and get-up of the New York Company.

The American company summed up its argument to this Court as follows (*id.*, p. 13):

> The plaintiff having, as explained, acquired its rights by purchase in 1913 at a very high figure and having then fortified and established those rights and having identified them with the plaintiff in the public mind by the expenditure of vast sums for advertising, etc., and the payment of enormous taxes, all representing the investment of American dollars in an American business, has undoubtedly become and now is entitled to protection against any invasion of the trade which it has built up and established, no matter what form that invasion may take or how plausible or specious the tendered justification for any such invasion may be.



same powder under that mark in the United States. Justice Holmes noted that it would be unfair to permit the French seller to arrange to have its goods marketed in the United States by someone other than the American owner "for the purpose of evading the effect of the transfer." 260 U.S. at 691. Such a "contrivance," he said, "must fail." *Id.* For the same equitable reason, Justice Holmes said, buyers from the French producer, even if not engaged in any conspiracy, were prohibited from violating the trademark rights that had been purchased by an American concern and that had been developed in this country with the investment of $400,000—an amount that was, by standards of that day, an enormous sum. *See* 274 F. 856, 857 (S.D.N.Y. 1920).[15]

There can be no doubt, therefore, that the *Bourjois v. Katzel* litigation concerned very different equities from those presented in this case. The courts had before them the rights of an independent American trademark owner, who had invested substantial amounts in purchasing a trademark from a foreign manufacturer and in develop-

[15] Shortly thereafter, in *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923), this Court ruled *per curiam* that the same plaintiff could prevent the importation by a third party of face powders made in France by the same company from which the plaintiff obtained its powder. The petitioner's brief in the *Aldridge* case makes clear that the facts were virtually identical to those in *Bourjois v. Katzel. See* Brief on Behalf of A. Bourjois & Co., Inc., in *A. Bourjois & Co. v. Aldridge*, No. 50, October Term, 1922, at pp. 1, 3-6. Thus, the *Aldridge* decision, which was tied completely to the facts and analysis of *Bourjois v. Katzel*, held only that an independent American trademark owner that had developed its own public identification with the trademarked product could have the trademarked goods excluded under the 1905 Trade-Mark Act.

The Solicitor General, responding to the petition in *Bourjois v. Aldridge*, asserted "no opposition" to the relief requested by the American Bourjois Company. It was surely relevant, by that juncture, that Congress had enacted Section 526. Indeed, the Solicitor General quoted Section 526 in his responsive memorandum, although he cautioned that this was being done "without suggesting that any new questions arise in the present case by reason of this recent addition." Brief for George W. Aldridge, Collector of the Port of New York, p. 2.

ing an American identity distinct from that of the foreign trademark owner. The central question was whether the foreign manufacturer's goods—which were not subject to any control or influence whatever by the American trademark owner—could be freely imported into the United States merely because they were "authentic" products.

An entirely different situation is presented when the owners of the American and foreign trademark are the same person or are corporations that are affiliated as parent and subsidiary. In those circumstances, the American trademark owner is seeking protection against competition from its *own* merchandise, which it has chosen to send into the stream of international commerce. Such an American owner has many alternative means in his control of preventing his own foreign-manufactured goods from competing with his American-manufactured goods. He may sell his products at the same prices here and abroad or he may make the American product distinctive from the foreign one. Total exclusion of a foreign-manufactured product from the United States goes far beyond whatever legitimate economic interest the American trademark owner may assert.

### 2. *The Legislative Materials*

The discussion on the floor of the Senate corroborates the primary lesson of the *Bourjois v. Katzel* litigation. In enacting Section 526, Congress was addressing precisely the same inequity—fraud on Americans who had purchased independent trademark rights from a foreign manufacturer—that this Court addressed in the opinion it issued shortly thereafter. The emphasis on the rights of *independent American* companies threatened by inequitable competition from foreigners who had sold them exclusive U.S. trademark rights permeated the short Congressional debate.[16]

[16] The Senators apparently believed that *Bourjois v. Katzel* involved a foreign manufacturer that was itself shipping its trademarked goods to the United States after selling the same trademark to an American citizen. Thus, the Senators continually referred to "fraud" by the foreign manufacturer, 62 Cong. Rec. 11,603 (remarks of Senator Sutherland), 11,604 (remarks of Senator McCumber). Although this view was factually incorrect, it was the reason for passage of Section 526, and the language of the law must be interpreted in light of this state of mind.



Congress was concerned lest foreign enterprises take unfair advantage of independent American firms to which they had sold exclusive trademark rights in this country for substantial sums, particularly if the American purchasers had built up local good will with the domestic expenditure of money and energy. The legislative history of Section 526 demonstrates beyond cavil that Congress did not intend to provide the means for market manipulation whereby a foreign manufacturer could suppress price competition by barring from this country his own authentic goods produced and purchased abroad.

Discussion on the bill that became Section 526 covered less than three full pages of the Congressional Record. The Senators who opposed the legislation urged that it be referred to the Committee on Foreign Relations or the Committee on Patents. They were, however, outnumbered by those such as Senator Sutherland of West Virginia who explained that "its *only* aim is to prevent a palpable fraud." 62 Cong. Rec. 11,603 (emphasis added). He said (*id.*):

> I believe that the Senate is in favor of protecting the property rights of American citizens who have purchased trade-marks from foreigners, and when these foreigners deliberately violate the property rights of those to whom they have sold these trademarks by shipping over to this country goods under those identical trade-marks.

Senator McCumber, a co-sponsor of the comprehensive tariff bill to which Section 526 was a last-minute amendment, then explained that he supported the provision because, under the decision of the Court of Appeals in *A. Bourjois v. Katzel*, "the American purchasers of these [trademark] rights are entirely unprotected." 62 Cong.

Rec. 11,604. The amendment, he said, "is to give the opportunity to protect the American purchaser." *Id.* In answer to further questions, he described Section 526 as "a prohibition against the violation of [] contract," and he added, "In a thousand ways we have guarded against fraud, and this [is] one among the thousand." *Id.*[17]

There was no suggestion whatever that the foreign owner of an American trademark should be permitted to control the flow of his own goods into the United States or that an American trademark owner who produces goods abroad should be able to bar his own product from the United States.[18] In fact, a final question

[17] A particular illustration of the kind of American investment sought to be protected was given by Senator Simmons of North Carolina. He described the case of the American owners of the Bayer Aspirin trademark, who had purchased that interest at an auction conducted by the Alien Property Custodian for $5 million. 62 Cong. Rec. 11,604. The importation of German aspirin under the same trademark would obviously have destroyed the value of that purchase.

[18] The court of appeals cited one brief exchange between Senator Lenroot, an opponent of the bill, and Senator McCumber, its advocate, as proof that the bill was not designed to have the limitation that Customs has imposed. 790 F.2d at 911 (Gov't Pet. App. 17a). To demonstrate the absurd result that would follow from the original language of the bill, Senator Lenroot noted that an American who purchased Wonder Flour—a product manufactured in the United States—on the other side of the Canadian border would be prohibited from bringing that authentic trademarked product into the United States. Senator McCumber immediately agreed to amend the language to limit the bill to merchandise "of foreign manufacture" to exclude that extreme case, and this amendment was accepted.

If anything, the exchange proves *our* point—*i.e.*, that the Senate did not want to extend the bill to products that had emanated from, or been authorized by, American trademark owners such as Wonder Flour. The Wonder Flour hypothetical would have seemed equally absurd to Senators Lenroot and McCumber if the Canadian trademark for Wonder Flour had been held by a subsidiary of the American owner, and if the flour had been produced, under license from the American owner, on the Canadian side of the border. The readiness with which the Wonder Flour case was excluded by mutual agreement proves that the Senators did not want to include within Section 526 goods to which the authentic trademark had been applied with the consent of the American trademark owner.



directed by Senator Lenroot, an opponent of the legislation, to Senator McCumber raised the question whether a foreign manufacturer would be able, under this provision, to have an American agent register its trademark in the United States and then bar others from bringing the trademarked item into the country. Senator McCumber responded (62 Cong. Rec. 11,605):

> The mere fact of a foreigner having a trade-mark and registering that trade-mark in the United States, and selling the goods in the United States through an agency, of course, would not be affected by this provision.

What emerges from the full 1922 legislative history is a picture of a hastily drafted legislative provision, designed to prevent an inequity that a recent court decision had sanctioned. In that context, a narrow reading of Section 526 makes eminently good sense. If Section 526 were broadly construed, as the court below has read it, it would leave major questions unanswered: Why would Congress have wanted in 1922 to keep out of the United States goods manufactured abroad whose trademark ownership—even if nominally held by an American company—was truly controlled by a foreign corporation? Conversely, why would Congress have wanted in 1922 to permit an American firm to keep from the United States goods that it was manufacturing and distributing abroad, through subsidiaries, and which carried the authentic trademark applied with the approval of the American firm?[19]

[19] The court of appeals also relied on a legislative proposal made in 1930 to keep American corporations from moving their production plants abroad as proof of Congress' understanding of the 1922 law. 790 F.2d at 912 (Gov't Pet. App. 20a). In rejecting this same argument, Judge Restani of the Court of International Trade noted that a principal supporter of the 1930 proposal expressed his understanding that Section 526, as it stood then (and stands now), was designed "to protect the American owner of the trade-mark against importations of articles *which have been stamped with his*

## IV. THE FEDERAL AGENCY RESPONSIBLE FOR ENFORCING SECTION 526 HAS INTERPRETED IT FOR THE PAST FIFTY YEARS AS PROTECTING ONLY INDEPENDENT AMERICAN TRADEMARK OWNERS

A firmly established rule of statutory construction is that courts must defer to interpretations of regulatory statutes by agencies charged with the enforcement of those statutes. This Court reaffirmed that principle as recently as January 14, 1987, in *Clarke v. Securities Industry Ass'n*, —— U.S. ——, 107 S. Ct. 750, 759 (1987). Indeed, this Court held in *Chevron, U.S.A., Inc. v. Natural Resource Defense Council*, 467 U.S. 837 (1984), that a court is not free to "impose its own construction of the statute" (467 U.S. at 843), but may only pass on "whether the agency's answer is based on a permissible construction of the statute." *See also Young v. Community Nutrition Institute*, —— U.S. ——, 106 S. Ct. 2360 (1986).

The Customs Service (previously known as the "Bureau of Customs") has a consistent record of permitting parallel importation when the foreign producer and the American trademark owner are essentially identical.

Customs' published record begins with a 1936 Treasury Decision, No. 48,537, which dealt specifically with the procedures for effectuating Section 526 (J.A. 27-29). In instructions to "Collectors of Customs and Others Concerned," the then Commissioner of Customs invoked his authority to implement, *inter alia*, Section 526 of the Tariff Act of 1930. He directed local Collectors not to permit the importation of merchandise bearing a statutory protected

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*mark without his consent.*" *Vivitar Corp. v. United States*, 593 F. Supp. 420, 428 (C.I.T. 1984); 71 Cong. Rec. 3873 (1930) (emphasis added). Moreover, it is clear from the legislative debate that those who were supporting the 1930 amendment did not focus with precision on the coverage of Section 526 as originally enacted. They believed that by deleting the language permitting an American trademark owner to consent to the importation of trademarked goods, they could turn a law that had protected American corporations into a law that would effectively bar such corporations from establishing manufacturing plants abroad.



trademark, but added the following *caveat* (*id.* at 28, emphasis added):

> However, merchandise manufactured or sold in a foreign country under a trade-mark or trade name, which trade-mark is registered and recorded, or which trade name is recorded under the trade-mark laws of the United States, shall not be deemed for the purposes of these regulations to copy or simulate such United States trade-mark or trade name *if such foreign trade-mark or trade name and such United States trade-mark or trade name are owned by the same person, partnership, association or corporation.*

Contrary to the assertion made by the court below, the above provision *did* "purport to interpret" Section 526, as well as provisions of the Trade-Mark Act—well before the 1943 recodification which explicitly added that section as a marginal reference. 790 F.2d at 914, n. 14 (Gov't Pet. App. 23a, n.14). *See* J.A. 39-44. The preamble to the 1936 regulation begins with the recitation that they are promulgated "[p]ursuant to the authority" of both the Trade-Mark Acts of 1905 and 1920 and Sections 526 and 624 of the Tariff Act of 1930. J.A. 27

The Commissioner of Customs explicitly instructed the local Collectors of Customs which trademarked items could be admitted and which could not. In the former category, he placed those items whose American and foreign trademarks were owned by "the same person, partnership, association or corporation." It would have been senseless for the Commissioner to issue such instructions permitting importation of trademarked merchandise *only* to enforce Section 27 of the Trade-Mark Act of 1905, while leaving uninterpreted the language of Section 526. If the court below were correct, the identical merchandise would then have been importable under the Trade-Mark Act and the Commissioner's 1936 regulation but excludable under Section 526. The regulation would then have been a wholly meaningless gesture—announcing that goods excludable in any event under Section 526 are admissible under the Trade-Mark Act.

The *only* rational understanding of the 1936 regulation is that it did what its preamble said—enforce the Tariff Act as well as the Trade-Mark Act. For purposes of both laws, the Bureau of Customs said in 1936—as it has been saying consistently since that time—that the right to exclude conferred by Section 526 does not apply when the purported American "owner" is not independent but is, instead, the alter ego of the foreign trademark "owner." In that circumstance, it cannot be said that the American trademark is "owned" by a citizen of the United States.

Virtually identical language was included in the revised Customs Regulations of 1943 and 1947. 19 C.F.R. § 11.14 (b) (1943), 19 C.F.R. § 11.14(b) (1947) (J.A. 39, 46). In each case, the Bureau of Customs expressly invoked Section 526. J.A. 39, 46, 48.

There can be no question that, during this period, the Customs Bureau explicitly permitted parallel importation. In *In the Matter of Georg Jensen, Inc.*, T.D. 52,711 (1951)—involving the famous Jensen silver imported from Denmark—the Commissioner of Customs [20] permitted parallel importation of Jensen silver because the American registrant was not the ultimate owner of the trademark but only an arm of the Danish manufacturer: [21]

> Inasmuch as the petitioner in this proceeding presented evidence that Georg Jensen Solvsmedie of Copenhagen, Denmark, maintains control over the Georg Jensen trade-marks in this country, and as it is the opinion of the Bureau that when a foreign firm owns or controls one or more trade-marks in

[20] The *Jensen* decision was contemporaneously viewed as the position of the Commissioner on the proper scope of Section 526. Derenberg, "The Impact of the Antitrust Laws on Trademarks in Foreign Commerce," 27 *N.Y.U.L. Rev.* 414, 429 (1952).

[21] Ultimately, this decision was reversed upon a showing that the American trademark owner had become an "independent dealer" because he purchased the articles in an arms-length transaction and the Danish manufacturer exercised no common control or ownership of the American trademark owner. *See* T.D. 52,971 (1952); *Georg Jensen & Wendel, A/S v. Georg Jensen Handmade Silver, Inc.*, 111 F.2d 169 (C.C.P.A. 1940).



> this country said trade-marks may not be used to prohibit the importation of articles sold by that foreign firm, all collectors of customs and other officers of customs shall hereafter not detain any jewelry or silverware under the trade-mark laws because the articles bear the words "Georg Jensen" or any part thereof provided the articles were manufactured or sold by Georg Jensen Solvsmedie of Copenhagen, Denmark.

*See* Derenberg, 27 *N.Y.U.L. Rev.*, *supra*, at 429.

As international corporate relationships became more complex in a period of increasing trans-national commerce, the Customs regulations were adapted to meet changing conditions while carrying out the same basic policy. A 1953 revision of Customs regulations, designed in part "[t]o eliminate obsolete material, [and] correct discrepancies," added to the "same person, partnership, association or corporation" exception published in 1936 and repeated in 1943 and 1947, the phrase "or by a related company as defined in section 45 of the Trade-Mark Act of 1946." T.D. 53,399 (1953) (J.A. 55, 56).[22]

Customs policy was explained in 1951 by the then Commissioner of Customs, Frank Dow, in a letter to Senator Paul Douglas (J.A. 53; emphasis added):

> As interpreted by the Bureau, section 526 prohibits the importation of genuine articles of foreign origin bearing a genuine trade-mark valid in a foreign country, *which articles were not produced by or with the authority of the United States owner of such mark. . . .*
>
> However, if the United States trade-mark owner and the owner of the foreign rights to the same mark

[22] The "related company" language was deleted in 1959. 24 Fed. Reg. 3513 (1959). After 1959, just as prior to 1953, Customs viewed the American and foreign owners of a trademark as the "same person" under the revised regulations if they were parent and subsidiary or under common control. In such circumstances, the American trademark owner could not exclude trademarked goods. *See* Atwood, "Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs," 59 *Trademark Rep.* 301, 310 (1969).

> *are one and the same person*, articles produced and sold abroad by the foreign owner *may be imported by anyone for the reason that the trade-mark owner has himself introduced the articles into commerce or authorized such introduction and may not unreasonably restrict the use of the product thereafter.*

On June 27, 1962, the Deputy Commissioner of Customs for Entry, Value and Penalties wrote to a Washington, D.C. attorney summarizing the Customs Bureau's policy regarding the situation of an American trademark owner that manufactures its goods abroad through subsidiaries who are authorized to affix the trademark to the foreign-manufactured product (J.A. 62):

> It is the Bureau's opinion that a foreign wholly owned subsidiary and its United States parent corporation are the same corporation within the meaning of section 11.14(b) of the Customs Regulations. This interpretation has been consistently applied for some years before insertion of the "related companies" provision in the customs regulations and since the "related companies" provision was deleted from the regulations in 1959.

In 1963, the Deputy Customs Commissioner continued to express the same view (J.A. 63):

> It has been the Bureau's position for many years that in permitting anyone to import merchandise manufactured or sold by the foreign parent or subsidiary corporation of an American trademark owner is [*sic*] the correct interpretation of section 526 of the tariff act and section 42 of the trademark law.

A 1968 Treasury Decision again explicitly made the parent-subsidiary relationship an integral element of Customs' enforcement of Section 526 and specifically covered the situation of an American trademark owner who authorizes foreign production of goods bearing the recorded trademark (T.D. 69-12(2), 3 Customs Bulletin 17 (1968); J.A. 65):

> The trademark or trade name on imported foreign-produced merchandise shall not be deemed to copy or simulate a registered trademark or trade name, if the foreign producer is the parent or subsidiary of the American owner or the firms are under a common control. Further, if a foreign producer has been authorized by the American owner to produce and sell goods abroad bearing the recorded trademark or trade name, merchandise so produced and sold is deemed admissible.



Following this consistent course, Customs promulgated and published in 1972 the regulations that are now being challenged. 19 C.F.R. § 133.21. This history led Judge Restani to conclude in the *Vivitar* case that "Customs' long-standing construction has been consistently applied since at least 1962, and . . . probably reflects Customs general practice under its regulations since 1936." 593 F. Supp. at 432.[23]

A leading Customs authority, who has been involved in the enforcement process for many years as the Customs Service's attorney, has explained that although the regulatory language has varied over the years, the agency "always denied complete exclusionary protection to an American trademark registrant when it knew the importer to be a subsidiary or parent of the foreign user of the trademark" because

> the [Customs Service] is enforcing what it considers to be the Congressional intent to protect American

[23] The court below misread the significance of the action taken by the Solicitor General in *United States v. Guerlain*, 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated*, 358 U.S. 915 (1958). It was not true that the Customs Service knowingly barred parallel importation at the behest of subsidiaries or parents of foreign producers in the *Guerlain* case. The true explanation for the Customs' action was that the Bureau of Customs was unaware of the relationship between the American trademark owners and the foreign manufacturers. John Atwood, who was an attorney with the Bureau of Customs at the time and has continued in that capacity to the present day, subsequently explained that *Guerlain* left the Bureau of Customs in an "awkward position," because its "[r]egulations were not set up to specifically elicit [the] kind of information" necessary to identifying controlling foreign affiliations. Atwood, "Import Restrictions," 59 *Trademark Rep.*, *supra* n.22 at 307. *See* Motion of Solicitor General to Vacate Judgments, Nos. 24, 30 and 31, October Term, 1958, p. 7.

> firms against the fraud of foreign assignors of trademarks. Clearly if the American registered mark is owned or controlled by a foreign firm or an American firm under foreign ownership or control, that intent is not being carried out. That is why the [Customs Service] does not interpret Section 526 literally whenever a firm "organized" in the United States is involved, but looks to the true controlling force over the trademark.

Atwood, "Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs," 59 *Trademark Rep.* 301, 305-306, 307 (1969).

In this case, as it did in *Federal Election Comm'n v. Democratic Senatorial Campaign Committee*, 454 U.S. 27 (1981), the Court of Appeals for the District of Columbia Circuit has erroneously repudiated a federal agency's interpretation of its governing statute. In the *Democratic Senatorial Campaign Committee* case, the agency policy was only five years old by the time this Court rendered its decision reversing the Court of Appeals' unjustified repudiation of the agency's action.[24] In this case, the Customs policy was incorporated in the challenged regulations in 1972—fourteen years ago. Those same policies were clearly described in official correspondence, regulations and decisions in the 1950's following published regulations issued in the 1930's and 1940's. There was no warrant for the statement of the court below that the Customs Service's interpretation of Section 526 fails in the criteria of "throughness, validity, and consistency" to merit judicial acceptance. The Second Circuit properly held otherwise in its decision in the *Olympus* case. 792 F.2d at 321.

## V. CONGRESS WAS AWARE OF CUSTOMS' ADMINISTRATION OF SECTION 526 AND RATIFIED IT BY MAINTAINING THE STATUS QUO

On a number of occasions over the past half century, Congress manifested that it was fully aware of Customs'

[24] The Court's opinion, issued on November 10, 1981, declared that "[s]ince 1976, [the agency] consistently has adhered to its construction . . . ." 454 U.S. at 37.



policy and chose not to override or interfere with it. One of the clearest relatively recent indications was in 1978, when Congress specifically examined Section 526 and even amended the law, but did not affect the administrative practice regarding parallel imports. The House Report accompanying the Customs Procedural Reform and Simplification Act, 92 Stat. 888 (1978), noted that Section 526 (H.R. Rep. No. 621, 95th Cong., 1st Sess. 27 (1977); emphasis added):

> has been consistently interpreted by the United States Customs Service for the past 20 years as excluding from protection foreign-produced merchandise bearing a genuine trademark created, owned, and registered by a citizen of the United States *if the foreign producer has been authorized by the American trademark owners to produce and sell abroad goods bearing the recorded trademark.*

The 1978 Act was a comprehensive customs bill, which contained 27 separate sections (including amendments to Section 526), but it left intact the Customs Service's interpretation of, and practice under, Section 526 with regard to genuine foreign-made trademarked goods.

The court of appeals dismissed this Congressional acknowledgment of Customs' "consistent interpretation" as merely a single "casual statement in a committee report of one chamber." 790 F.2d at 917 (Gov't Pet. App. 30a). In so doing, the court below ignored other explicit manifestations of Congress' understanding through the years.

Most recent was the report of the Senate Judiciary Committee on the Trademark Counterfeiting Act of 1984 (S. Rep. No. 526, 98th Cong., 2d Sess. 3, *reprinted in* 1984 U.S. Code Cong. & Ad. News 3627, 3629). The Committee explained why that legislation would not hinder parallel importation (emphasis added):

> [The bill] does not include within its coverage so-called "gray-market" goods—i.e., authentic trademarked goods that have been obtained from overseas markets. *The importation of such goods is legal under certain circumstances.* For example, the

Treasury Department *has long interpreted section 526 . . . to permit the importation of such goods* when the foreign and domestic users of the trademark are affiliated through common ownership and control. *See* 19 C.F.R. 133.21(c).

There were, in addition, other times when Congress had the opportunity to revise the Customs practice but chose not to do so. When Congress considered and passed the Lanham Act, the United States Tariff Commission (predecessor of the International Trade Commission) informed Congress of Customs' policy, set forth in its regulations, that genuine trademarked goods were not barred from entry if the foreign and domestic trademark owners were the same person or entity. *Hearings on H.R. 82 Before the Subcomm. of the Senate Comm. on Patents*, 78th Cong., 2d Sess. 86-87 (1944). Congress passed the Lanham Act, making no changes in Customs' policy or procedure.

In 1954 and again in 1959, Congress considered proposals that would have amended Section 526. Congress was advised of Customs' policy by the Assistant Secretary of State in 1954. *Customs Simplification Act of 1954: Hearings on H.R. 9476 Before the House Comm. on Ways and Means*, 83d Cong., 2d Sess. 6 (1954). *See also* H.R. 7234, 86th Cong., 1st Sess. §§ 2, 3 (1959). It was clear to Congress in 1954 that Customs was permitting the parallel importation of trademarked goods manufactured by companies "affiliated" with the American trademark owner. Indeed, in December 1953, the Treasury Department issued a public announcement of that policy. T.D. 53,399, 88 *Treas. Dec.* 384 (1953) (J.A. 55). Rather than change that policy in any way, Congress left the law exactly as it had been. And in 1959 Congress declined to alter Section 526 with full knowledge of existing Customs policies. *See* H.R. 7234, 86th Cong., 1st Sess. §§ 2, 3 (1959).

This Court has applied the doctrine of legislative ratification by acquiescence in a number of leading cases. *See, e.g., Bob Jones University v. United States*, 461 U.S. 574, 599 (1983) (Internal Revenue Service rulings issued in



1970 and 1971 denying tax-exempt status to racially discriminatory educational institutions had been known to Congress for more than a decade). Even if an agency's original assertion of statutory authority is dubious, Congressional acquiescence in the agency's exercise of that authority constitutes Congressional approval. In *Haig v. Agee*, 453 U.S. 280 (1981), this Court sustained the revocation of a passport by the Secretary of State even though "[t]he [1926] Passport Act does not in so many words confer upon the Secretary [the] power to revoke a passport." 453 U.S. at 290. The Secretary had officially asserted such a power by regulation since at least 1956. In 1978, Congress enacted legislation relating to passports, and it did not modify the State Department regulations relating to passport revocation. The Supreme Court therefore upheld the revocation and noted (453 U.S. at 301, *quoting Zemel v. Rusk*, 381 U.S. 1, 2 (1965)):

> The 1978 amendments are weighty evidence of congressional approval of the Secretary's interpretation, . . . . Despite the longstanding and officially promulgated view that the Executive had the power to withhold passports for reasons of national security and foreign policy, Congress in 1978, "though it once again enacted legislation relating to passports, left completely untouched the [administrative practice]."

This Court said in a footnote that because Congress had amended the Passport Act, Congress was "presumed to have adopted the administrative construction." 453 U.S. at 301, n.50. *See also Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Curran*, 456 U.S. 353, 378-382 (1982). In the present circumstances, the rule stated by this Court in *Lorillard, Inc. v. Pons*, 434 U.S. 575, 580 (1978), applies:

> Congress is presumed to be aware of an administrative or judicial interpretation of a statute and to adopt that interpretation when it re-enacts a statute without change.

In its decision in the *Olympus* case, a majority of the Court of Appeals for the Second Circuit concluded that Congress knew of the Customs practice of permitting

parallel importation "and yet chose not to change it while amending other parts of section 526 in 1978." 792 F.2d at 321. The Second Circuit agreed with District Judge Johnson in this case that there had been "a pattern of legislative acquiescence." 790 F.2d at 917, *quoting* 598 F. Supp. at 851. Accordingly, said the Second Circuit "in light of the long acceptance of the regulations, change is a matter for the legislative or executive branch and not the judiciary." 792 F.2d at 321.

## VI. INTERNATIONAL STANDARDS, CONTEMPORARY ANTITRUST POLICY, AND TRADEMARK LAW SUPPORT THE LONG-STANDING CUSTOMS ADMINISTRATION OF SECTION 526

In determining why Congress would have left Section 526 "untouched" when it knew of Customs' construction of that statute, it is relevant to consider how foreign nations treat the same subject and how the Customs policy fits into our web of antitrust and trademark laws. Examination of all three subjects supports the Customs position.

### A. Our Trading Partners Permit Parallel Imports

Parallel importation is permitted by virtually every foreign jurisdiction that is commercially significant. These foreign jurisdictions recognize that consumer prices are reduced by vigorous competition. The interpretation of American law applied by the court below would place this country at odds with the policies of virtually the entire free world and would grant foreign companies a kind of protection in the United States that American manufacturers are not granted overseas.

Most of the photographic equipment manufacturers who are challenging the Customs Service regulations governing parallel importation are headquartered in Japan. That country, however, does not entitle a trademark owner to prevent the importation or sale of authentic trademarked products manufactured by a foreign affiliate. Hence Japanese manufacturers are attempting by this lawsuit to obtain rights in the United States that Japan



is unwilling to give to American manufacturers doing business in Japan. In a 1970 decision involving American-made "Parker" pens, the Osaka District Court ruled that the Japanese trademark holder of "Parker" products could not bar others from importing genuine "Parker" pens into Japan because parallel importation encourages free competition and improves prices and services. *N. Mc. Co., Ltd. v. Schulyro Trading Co. (Parker Pen Cases)*, 234 Henrei Taimuzo 57 (Osaka Dist. Ct. Feb. 27, 1970), *reported in English*, 16 *Japanese Ann. of Int'l L.* 113, 131-132 (1972). In 1972 the Japanese government issued a regulation under the Customs Duties Act authorizing importation of genuine trademarked goods if the domestic owner either holds the foreign trademark or should be considered the same entity as the foreign trademark owner. *See* Takamatsu, "Parallel Importation of Trademarked Goods: A Comparative Analysis," 57 *Wash. L. Rev.* 433, 442-43 (1982). Guidelines issued by the Fair Trade Commission of Japan actually declare it to be an unfair business practice to *hinder* parallel importation of goods. *Id.* at 443.

Parallel importation is also permitted by our European trading partners: Switzerland (*see Phillips A.G. v. Radio Import GmbH*, Judgment of October 4, 1960, Fed. Sup. Ct., 86 BG IV 119, 86 ATF II 270, *summarized in* 52 *Trademark Rep.* 140-41 (1962)); Austria (*see Agfa-Gevaert Gmbh v. Schark*, Judgment of Nov. 30, 1970, Sup. Ct.); the United Kingdom (*see Champagne Heidseick v. Buxton*, 47 Pat. Cas. 28 (1930)); West Germany (*see* Judgment of Jan. 22, 1964, 41 BGHZ 84, (Bundesgerichtshof), *summarized in English*, 54 *Trademark Rep.* 452 (1964)); the Netherlands (*see* Judgment of Dec. 14, 1956, Hoge Raad dev. Nederlander); and Sweden (*Skandinavisk Henkel Aktieselskab & Parfymeri Trading Aktiebolag v. Charasz, NJA 1967*). *See also Consumers Distributing Co., Ltd. v. Seiko Time Canada, Ltd., Supreme Court of Canada*, No. 16970 (June 21, 1984). *See generally* Koritz, "The Problem of Parallel Importation—A Comparative Study of Trademark Law in the United States and Sweden," 9 *N.Y.U. J. Int'l Law*

*& Pol.* 389 (1977); Derenberg, "Territorial Scope and Situs of Trademarks and Good Will," 47 *Va. L. Rev.* 733 (1961); Kitchin, "The Revlon Case Trade Marks and Parallel Imports (UK)", *Eur. Intell. Prop. Rev.* 86 (Mar. 1980).

In addition, the European Court of Justice, which enforces the European Economic Community's Rome Treaty, has repeatedly held that parallel importation is permissible unless the domestic and foreign trademark owners are completely independent. *See* Kemp, "The Erosion of Trademark Rights in Europe: Phase II," 69 *Trademark Rep.* 460 (1979). Finally, language in Principle D(4) of *The Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices*, adopted by the United Nations Conference on Trade and Development, indicates an international consensus that restrictions on parallel importation are offensive. U.N. Doc. TD/RBP/CONF/10/Rev. 1, at 10-11 (1980).

Permitting distribution subsidiaries to exclude from the United States products that their foreign parents have introduced into commerce abroad plainly would allow them "to carry out a price discrimination program to the detriment of the United States consumer." Dam, "Trademarks, Price Discrimination and the Bureau of Customs," 57 *Trademark Rep.* 14, 18 (1967). No foreign country damages its own consumers so severely.

### B. Antitrust Policies Do Not Support the Decision Below

The court of appeals' opinion asserts that since "prevailing antitrust doctrine has changed significantly" in the past 30 years (790 F.2d at 416); (Gov't Pet. App. 27a), multinational enterprises should now be permitted to engage in vertical territorial allocations and in fixing different prices for their products in different countries because restrictions on intrabrand competition



are no longer illegal *per se.*[25] In fact, a domestic manufacturer or distributor is still not permitted under the antitrust laws to establish exclusive selling territories for authorized retail dealers unless some benefit to consumers is shown to justify such a restraint.[26] *See Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 52, 55-57 (1977); *Eiberger v. Sony Corp. of America*, 622 F.2d 1068, 1075-1081 (2d Cir. 1980); *Muenster Butane, Inc. v. Stewart Co.*, 651 F.2d 292, 296 (5th Cir. 1981). Improvement in interbrand competition cannot, however, be reasonably predicted in the case of multi-national corporations. Since agents of such corporations who are outside the territorial limits of the United States can meet

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[25] The court of appeals misread the outcome of *United States v. Guerlain, Inc.*, 155 F. Supp. 77 (S.D.N.Y. 1957), that was vacated at the suggestion of the Solicitor General in 1958. 358 U.S. 951 (1958). The District Judge's discussion of the issues of statutory construction and of antitrust law were not repudiated in the Solicitor General's suggestion to the Supreme Court. Rather, the Solicitor General noted that the Customs Service had been persuaded to exclude the perfumes (apparently because Customs authorities were not aware of all facts relating to the interrelationship between the American trademark owners and the foreign manufacturers). See n.23, *supra*. It was not thought fair to proceed with an antitrust action against the corporations if there was government participation in their allegedly unlawful conduct. *See* Motion to Vacate Judgments, Nos. 24, 30, 31, October Term, 1958, p. 7. The Solicitor General continued to express the government's view "that trademark protection is not available to prohibit the importation of a product legitimately marked by an affiliate of the trademark owner," and stated the Executive Branch's intention to introduce clarifying legislation. *Id.* at 7-8. The legislation that was ultimately introduced went much further than the Solicitor General's suggestion, and it was never enacted.

[26] An American manufacturer of trademarked goods, seeking to establish a higher price in one part of the country than in another may still not institute trademark infringement actions in order to prevent sales by a dealer from the low-price market into a high-price market. *See, e.g., United States v. Bausch & Lomb Optical Co.*, 321 U.S. 707, 721 (1944); *see also Parkway Baking Co. v. Freihofer Baking Co.*, 154 F. Supp. 823, 825-26 (E.D. Pa. 1957), *aff'd*, 255 F.2d 641, 648-49 (3d Cir. 1958).

abroad and enter into anticompetitive arrangements with little concern over American antitrust enforcement, reduced intrabrand competition will not produce increased interbrand competition. Thus, the mere fact that *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967), is no longer good law does not mean, *ipso facto*, that vertical territorial restraints are laudable or even lawful in every instance.

Recently the Federal Trade Commission's Bureaus of Competition, Consumer Protection and Economics filed joint comments with the Department of the Treasury ("FTC Comments") in response to its notice of June 17, 1986 (51 Fed. Reg. 22,005) soliciting comments on "gray market" policy options. The FTC Comments suggest that there would be serious anti-competitive effects if parallel imports were prohibited. First, if the current regulations were to be changed, anti-competitive agreements among manufacturers in foreign countries would be facilitated (FTC Comments at 9, n.11):

> If a foreign producer faces contractual (or political) obligations in its home market with respect to price or price and quantity, is producing at capacity, and faces a lag in adding new capacity, it may be forced to price discriminate against U.S. consumers.

Second, collusion among retailers and manufacturers might result (FTC Comments, at 12; footnote omitted):

> Imposition of geographic restrictions by manufacturers might conceivably stem from the insistence of colluding retailers or wholesalers who are seeking to raise their margins. By limiting intraband competition from gray market goods, across-the-board restrictions on gray market goods might therefore allow retailers or wholesalers to raise their margins for all brands in an industry . . . . Use of the Customs Service to police collusive agreements imposed by distributors would harm consumers and would not be an appropriate use of government funds.

In a 1971 letter to the Commissioner of Customs, which was part of the administrative record of the 1972 promulgation of 19 C.F.R. § 133.21, the Antitrust Division of the Department of Justice explained why it then believed that a broad construction of Section 526 should be rejected on antitrust grounds (J.A. 72):



> [A]n American component of a multinational enterprise could insulate itself from competition from third parties who had purchased the identical article from the foreign affiliate of the American firm. Such a rule would not protect the consumer from deception, since the goods would be of identical quality. Its only effect would be to raise prices by eliminating competition.

That analysis is valid today. If the Customs Service's policy is set aside, the government would enforce exclusive territories without any benefit to consumers.[27] Such a ruling would enable foreign manufacturers to fix exorbitant prices for the American market and to rely on the import law to suppress price competition.[28]

### C. The Regulations Are Fully Consistent With Trademark Principles

The district court dismissed, for failure to state a claim, the plaintiff's suit under Section 42 of the Lanham Act, 15 U.S.C. §§ 1124, and the Court of Appeals did not reach the question whether the regulations were consistent with Section 42. It did indicate in *dicta*, however, an erroneous view of trademark law that may have af-

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[27] The FTC Comments reject the notion that a change in the regulations is necessary. First, the FTC Comments found several more plausible explanations than "free-riding" for the price differential between parallel imports and imports by U.S. trademark owners, including the manufacturer's own marketing strategy and collusion by manufacturers with retailers seeking to raise their profit margins. Second, they found that existing regulatory mechanisms are sufficient to protect consumers.

[28] There is ample evidence in the record of the significant advantages to consumers from policies permitting parallel importation. *See, generally*, Statement by 47th Street Photo, Inc. of Genuine Issues That Are In Dispute. Consumer groups have uniformly advocated continuation of the regulations in issue. *See ,e.g.*, Brief of American Consumers in Support of Defendants, filed June 15, 1984.

fected its assessment of the regulations which were issued under the authority of both Section 526 of the Tariff Act and Section 42 of the Lanham Act.

Section 42 of the Lanham Act, 15 U.S.C. § 1124, provides that "no article of imported merchandise . . . which shall copy or simulate a trademark registered in accordance with the provisions of this Act . . . shall be admitted to entry at any customhouse of the United States . . . ." COPIAT claimed that this statute affords protection from the unauthorized importation of goods bearing authentic trade-marks. The statute plainly applies, however, only to merchandise bearing counterfeit or unauthorized trademarks that "copy or simulate" genuine marks. The District Court so found.

In tracing the history of Section 526, the court of appeals seems to have taken a contrary view.[29] It stated that Justice Holmes' opinion in *Bourjois v. Katzel* adopted a "territoriality" theory of trademark which protects a trademark as a property right within each sovereign nation. 790 F.2d at 909 (Gov't Pet. App. 13a). But Justice Holmes himself repudiated such a broad view of *Katzel* in the very next Term of Court. In *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 366-67, 369 (1924), the Supreme Court reversed an injunction that had been granted against a seller of genuine parallel import perfumes. The plaintiff's argument based upon the Trademark Act and *Katzel* was summarily dismissed

[29] The panel relied on a one-sided student Note, 54 *Fordham L. Rev.* 83 (1986), cited at 790 F.2d at 910 (Gov't Pet. App. 14a). The Note's view of the law is contrary to the weight of scholarly authority in this area. *Compare*, Lipner, "The Legality of Parallel Imports: Trademark, Antitrust, or Equity," 19 *Tex. Int. L. J.*, 553 (1984); Atwood, *supra*, pp. 35-36; Dam, "Trademarks, Price Discrimination and the Bureau of Customs," 57 *Trademark Rep.* 14 (1967); Vandenburgh, "The Problem of Importation of Genuinely Marked Goods is Not a Trademark Problem," 49 *Trademark Rep.* 707 (1959); Note, 17 *L. & Pol. in Int. Business* 177 (1985); Note, 35 *Maine L. Rev.* 315 (1983); "Developments in the Law: Trademarks and Unfair Competition," 68 *Harv. L. Rev.* 814, 913-920 (1955); Note, 64 *Yale L. J.* 557 (1955).



by the Court. Justice Holmes wrote (264 U.S. at 368, citations omitted):

> A trademark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of another's product as his. *There is nothing to the contrary in* [*Katzel*]. There the trademark protected indicated that the goods came from the plaintiff in the United States, although not made by it, and therefore could not be put upon other goods of the same make coming from abroad. *When the mark is used in a way that does not deceive the public, we see no such sanctity in the word as to prevent its being used to tell the truth.*

The court of appeals ignored *Prestonettes* and thus misunderstood *Katzel*.

The court of appeals was similarly wrong when it said that Congress "enshrined" into law the "territoriality" theory when it passed Section 526. 790 F.2d at 910 (Gov't Pet. App. 14a). The court's citation for this proposition is the Conference Report, H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922):

> A recent decision of the circuit court of appeals holds that existing law does not prevent the importation of merchandise bearing the same trade-mark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. [Section 526] makes such importation unlawful without the consent of the owner of the American trade-mark . . . .

What is missing from this quote is the end of the sentence: "in order to protect the American manufacturer or producer." *Id.* The significance of this omission is plain. It qualifies the intent of the statute, which was not to create an American monopoly in all trademarks, but to protect an independent arms-length purchaser of a U.S. trademark from fraud perpetrated by the foreign seller.

As noted above, *supra*, p. 38, when Congress passed the Lanham Act, it was fully informed that Customs

understood trademark law to hold that a genuine good could not infringe and, thus, that goods bearing foreign and domestic trademarks owned by related parties could not infringe each other. In accordance with this Congressional approval, after Section 42 replaced Section 27 of the Trade-Mark Act, the Bureau of Customs continued to allow the parallel importation of genuine trademarked merchandise produced abroad by a foreign company affiliated with the American trademark owner. *See generally* Atwood, "Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs," 59 *Trademark Rep.* 301 (1969). *See also* Vandenburgh, "The Problem of Importation of Genuinely Marked Goods is Not a Trademark Problem," 49 *Trademark Rep.* 707, 712 (1959).

There is nothing to the contrary in *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923) (*per curiam*). The plaintiffs in this case have argued that the *Aldridge* decision created a gloss that was carried over into Section 42 of the Lanham Act and that it extended the reach of the law beyond counterfeits. In fact, however, *Aldridge* was only a response to the same equities as were presented in *Bourjois v. Katzel*. *See* n. 15, *supra*. As the court in *Olympus* noted, the position advocated by the plaintiffs "puts a great deal of strain on a one-sentence *per curiam* opinion announcing a decision, to which the opposing party did not object, based on the reasoning of a three-page opinion in [*Katzel*], a case influenced by equities not present here". 792 F.2d 321.

Moreover, the Customs regulations that followed *Bourjois v. Aldridge* made it clear to the world that the practice Customs was following after 1923—when the Supreme Court decided *Bourjois v. Katzel* and Congress enacted Section 526 of the Tariff Act—was limited to the *Bourjois v. Katzel* situation. Customs' published policy was that merchandise would be excluded only when the rights of an independent American trademark owner were being infringed because the American company was not associated with the foreign producer of merchandise



bearing the trademark. After the Supreme Court held in *Bourjois v. Katzel* that American trademark rights included, in such situations, the right to prevent importation and distribution of authentic goods, and after Congress enacted Section 526 (which the Solicitor General quoted, in full, in his *Bourjois v. Aldridge* memorandum), the Customs Service was legally obligated to exclude goods with authentic trademarks produced by a foreign manufacturer who was not affiliated with the American trademark owner.

While implementing this policy, the Customs Service also issued regulations expressing the negative—*i.e.*, clarifying that the words "copy or simulate" in Section 27 of the 1905 Trade-Mark Act would *not* reach cases in which the American trademark owner has authorized use of the trademark by a foreign manufacturer. Hence the only "*Aldridge* gloss" that Congress could have had in mind in 1946 was one that *excluded* authorized authentic trademarks from the meaning of "copy or simulate" as used in Section 42.

Recent decisions of the lower courts have reached the same conclusion as to the scope of Section 42. In *Olympus*, the court held that except where the equities of *Katzel* are presented, Section 42 bars the importation only of goods whose trademarks "copy or simulate" a genuine trademark. 792 F.2d at 321. *In Lever Brothers Company v. United States*, No. 86-3151 (D.D.C. filed Jan. 27, 1987), the district court denied a preliminary injunction to a multinational corporation which had sought to prevent the parallel importation of products that it introduced into commerce in Britain. In *American Honda v. Carolina Autosports Leasing & Sales*, 645 F. Supp. 863 (W.D.N.C. 1986), the district court refused to enjoin the importation of genuine Honda automobiles. *Accord, Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp.*, 707 F.2d 1054, 1058 (9th Cir. 1983); *DEP Corp. v. Interstate Cigar Co.*, 622 F.2d 621, 622 n.1 (2d Cir. 1980); *Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416 (S.D. Fla. 1983).

Finally, just as our trading partners do not prohibit parallel imports as a matter of trade policy, they have not adopted the concept of trademark urged upon the courts by the plaintiffs. For example, in 1985, La Chemise LaCoste, a French company that manufactures sportswear, and its Japanese exclusive trademark holder, asked the Japanese courts to enjoin the parallel importation into Japan of U.S.-produced LaCoste shirts. The court held that because the American trademark holder, Izod, manufactured and trademarked the apparel with the permission of La Chemise LaCoste, the imported products did not prejudice the functions of trademark: identification of origin and guarantee of quality. The court dismissed the claim. 48 *Antitrust and Trade Reg. Rep.* 225 (1985).

## CONCLUSION

For the foregoing reasons, the judgment of the Court of Appeals should be reversed and the District Court's judgment dismissing the complaint should be reinstated.

Respectfully submitted,

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February 20, 1987

# APPENDIX

## APPENDIX

### STATUTES & REGULATIONS INVOLVED

Section 201 of the Customs Court Act of 1980, 94 Stat. 1728, 28 U.S.C. § 1581 provides, in pertinent part:

> (a) The Court of International Trade shall have exclusive jurisdiction of any civil action commenced to contest the denial of a protest, in whole or in part, under section 515 of the Tariff Act of 1930.
>
> * * * *
>
> (h) The Court of International Trade shall have exclusive jurisdiction of any civil action commenced to review, prior to the importation of the goods involved, a ruling issued by the Secretary of the Treasury, or a refusal to issue or change such a ruling, relating to classification, valuation, rate of duty, marking, restricted merchandise, entry requirements, drawbacks, vessel repairs, or similar matters, but only if the party commencing the civil action demonstrates to the court that he would be irreparably harmed unless given an opportunity to obtain judicial review prior to such importation.
>
> (i) In addition to the jurisdiction conferred upon the Court of International Trade by subsections (a)-(h) of this section and subject to the exception set forth in subsection (j) of this section, the Court of International Trade shall have exclusive jurisdiction of any civil action commenced against the United States, its agencies, or its officers, that arises out of any law of the United States providing for—
>
> (1) revenues from imports or tonnage;
>
> (2) tariffs, duties, fees, or other taxes on the importation of merchandise for reasons other than the raising of revenue;
>
> (3) embargoes or other quantitative restrictions on the importation of merchandise for reasons other than the protection of the public health or safety; or

(4) administration and enforcement with respect to the matters referred to in paragraphs (1)-(3) of this subsection and subsections (a)-(h) of this section.

Section 526(a) of the Tariff Act of 1930, 46 Stat. 741, as amended by the Customs Procedural and Simplification Act of 1978, 82 Stat. 888, 19 U.S.C. § 1526(a) provides:

Importation Prohibited.

(a) Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of sections 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15, unless written consent of the owner of such trademark is produced at the time of making entry.

Section 133.21 of Title 19 of the Code of Federal Regulations published on October 3, 1972, 37 Fed. Reg. 20678, provides in relevant part:

§ 133.21 Restrictions on importation of articles bearing recorded trademarks and trade names.

(a) *Copying or simulating marks or names.* Articles of foreign or domestic manufacture bearing a mark or name copying or simulating a recorded trademark or trade name shall be denied entry and are subject to forfeiture as prohibited importations. A "copying or simulating" mark or name is an actual counterfeit of the recorded mark or name or



is one which so resembles it as to be likely to cause the public to associate the copying or simulating mark with the recorded mark or name.

(b) *Identical trademark.* Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.

(c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:

(1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;

(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§ 133.2(d) and 133.12(d));

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner; . . .

# PETITIONER'S

# BRIEF

(9) (9) (8)

Nos. 86-495, 86-624 and 86-625



IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

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K MART CORPORATION,
Petitioner,
v.
CARTIER, INC., *et al.*

---

47TH STREET PHOTO, INC.,
Petitioner,
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

---

UNITED STATES OF AMERICA, *et al.*,
Petitioners,
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

---

**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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**BRIEF FOR PETITIONER K MART CORPORATION**

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February 21, 1987

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56

## QUESTION PRESENTED

Since 1936, the Customs Service has interpreted and applied Section 526 of the Tariff Act of 1930 and Section 42 of the Lanham Act to allow the "parallel importation"* of genuine trademarked merchandise manufactured abroad in two narrow circumstances: (1) When the domestic and foreign trademark owners are affiliated; and (2) when the goods have been trademarked abroad with the authorization of the domestic trademark owner.

This case presents the following question: Is the Customs Service regulation on parallel imports valid either (a) as the proper interpretation of these statutes or (b) as a permissible exercise of agency enforcement discretion.

* "Parallel imports" or "grey market" goods are genuine foreign goods which bear an internationally recognized trademark. But rather than being imported by the American subsidiary of a foreign manufacturer and sold at artificially inflated prices, parallel imports are independently imported and sold at competitive prices to the American consumer. Parallel imports are economically feasible because foreign manufacturers charge a lower price abroad than in the United States.

## PARTIES TO THE PROCEEDING BELOW

Plaintiffs-Appellants

Cartier, Inc.

Charles of the Ritz Group, Ltd.

*Coalition to Preserve the Integrity of American Trademarks

Defendants-Appellees

United States of America

James A. Baker III, Secretary of the Treasury (formerly Donald T. Regan)

William Von Raab, Commissioner of Customs

Intervenors-Appellees

K mart Corporation
47th Street Photo, Inc.

**Rule 28.1 Listing**

K mart Corporation states that it is a publicly held corporation with no parent companies, subsidiaries or affiliates to list pursuant to Rule 28.1.

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* The Coalition to Preserve the Integrity of American Trademarks ("COPIAT") is an ad hoc trade association comprised largely of the domestic sales and marketing affiliates of foreign manufacturers of trademarked goods. Because of the affiliations between these foreign manufacturers and their domestic distributors, the Customs Service allows parallel imports of merchandise bearing trademarks owned by COPIAT members. Both Cartier, Inc. and Charles of the Ritz Group, Ltd. are members of COPIAT and are owned by foreign companies. A "nearly current" list of COPIAT's membership appears in the November 19, 1986 Brief for Respondents on Petitions for Writs of Certiorari at p. 1a.

TABLE OF CONTENTS

TABLE OF AUTHORITIES





TABLE OF AUTHORITIES—Continued

TABLE OF AUTHORITIES—Continued





TABLE OF AUTHORITIES—Continued



*STATUTES*

TABLE OF AUTHORITIES—Continued





TABLE OF AUTHORITIES—Continued

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IN THE

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COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

---

**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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## BRIEF FOR PETITIONER K MART CORPORATION

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### OPINIONS BELOW

The opinion of the Court of Appeals for the District of Columbia Circuit (Circuit Judges Mikva, Bork and Silberman) is reported at 790 F.2d 903 (K mart Pet. p. 1a).

The memorandum opinion of the United States District Court for the District of Columbia (District Judge Norma Holloway Johnson) is reported at 598 F. Supp. 844 (K mart Pet. p. 38a).

## JURISDICTION

The judgment of the court of appeals was entered on May 6, 1986 (Federal Pet. p. 51a). Petitions for rehearing were denied on July 18, 1986 (K mart Pet. p. 35a).

Petitions for a writ of certiorari were filed on September 26, 1986 by K mart (No. 86-495) and on October 16, 1986 by 47th Street Photo, Inc. (No. 86-624) and the Federal Petitioners (No. 86-625). In granting the petitions on December 8, 1986, the Court consolidated the three cases (J.A. 86, 87 & 88).

The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

## STATUTES AND REGULATIONS INVOLVED

Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, provides, in pertinent part:

> Importation prohibited
>
> (a) Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of sections 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15, unless written consent of the owner of such trademark is produced at the time of making entry.
>
> Seizure and forfeiture
>
> (b) Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.



Section 42 of the Lanham Act, 15 U.S.C. § 1124, provides in pertinent part:

> [N]o article of imported merchandise which shall copy or simulate the name of the [sic] any domestic manufacture [sic], or manufacturer, or trader, or of any manufacturer or trader located in any foreign country . . . or which shall copy or simulate a trademark registered in accordance with the provisions of this chapter . . . shall be admitted to entry at any customhouse of the United States. . . .

The Customs Service regulation, 19 C.F.R. § 133.21 (1986), provides in pertinent part:

> (b) *Identical trademark.* Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.
>
> (c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:
>
>> (1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity; [or]
>>
>> (2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§ 133.2(d) and 133.12(d); [or]

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner. . . .

## STATEMENT OF THE CASE

At issue is Customs Service regulation 19 C.F.R. § 133.21, which interprets and applies Section 526 of the Tariff Act of 1930 and Section 42 of the Lanham Act. In general, a United States trademark owner can prevent the "unauthorized" importation of genuine trademarked merchandise manufactured abroad, *i.e.*, "parallel imports" or "grey market goods". The Customs Service, however, does not recognize or enforce the domestic trademark owner's right to such exclusion of parallel distribution imports under two narrow circumstances: (1) When the domestic and foreign trademark owners are affiliated; and (2) when the goods have been trademarked abroad with the authorization of the domestic trademark owner. Some 13 years after this regulation was adopted, and over fifty years after a similar regulation was first adopted, the respondents herein filed an action to have the regulation declared void on the ground that Section 526 requires the exclusion of all parallel imports. The district court upheld the regulation.

The Court of Appeals for the District of Columbia Circuit, contrary to every other court which has considered the issue, held that the Customs Service regulation on parallel imports was inconsistent with Section 526 and therefore invalid.[1] The court of appeals decision has

[1] The regulation has been sustained by the Federal Circuit in *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), *aff'g* 593 F.Supp. 420 (Ct. Int'l Trade 1984), *cert. denied*, 106 S.Ct. 791 (1986), and by the Second Circuit in *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986), *aff'g* 627 F.Supp. 911 (E.D.N.Y. 1985), *petition for cert. filed*, No. 86-757 (Nov. 6, 1986). In addition, parallel import competition has survived trademark law and/or tariff law challenges in the following cases: *United States v. Guerlain, Inc.*, 155 F.Supp. 77 (S.D.N.Y. 1957), *vacated & remanded*, 358 U.S. 915 (1958), *dismissed*, 172 F.Supp. 107 (S.D.N.Y. 1959); *Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp.*, 707 F.2d 1054 (9th Cir. 1983); *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983); *Diamond Supply Co. v. Prudential Paper Products Co.*, 589 F.Supp. 470 (S.D.N.Y. 1984); *El Greco Leather Products Co. v. Shoe World, Inc.*, 599 F.Supp. 1380 (E.D.N.Y. 1984), *rev'd on other grounds*, 806 F.2d 392 (2d Cir. 1986); *Parfums Stern, Inc. v. United States*, 575 F.Supp. 416 (S.D. Fla. 1983); *United States v. Eighty-Nine Bottles of "Eau de Joy"*, 797 F.2d 767 (9th Cir. 1986); *American Honda Motor Co. v. Carolina Autosports Leasing & Sales, Inc.*, 645 F.Supp. 863 (W.D.N.C. 1986). Parallel import competition has also recently survived a challenge under the Uniform Commercial Code in *Johnson & Johnson Products, Inc. v. DAL International Trading Co.*, 798 F.2d 100 (3d Cir. 1986).



been criticized even by a district court within the District of Columbia Circuit. On January 21, 1987, the Honorable Harold H. Greene, after holding that the *COPIAT* decision was not binding, declared that "the [parallel imports] regulation is a reasonable exercise of the Custom Service's enforcement discretion." *Lever Brothers Co. v. United States*, Civil Action No. 86-3151 (D.D.C. Jan. 21, 1987). In the view of the court of appeals, however, Section 526 requires the Customs Service to exclude all parallel imports, contrary to an agency practice which, because it is both logical and consistent with legislative intent and public policy, has been in force for over five decades.[2]

### I. The Parties.

The Coalition to Preserve the Integrity of American Trademarks ("COPIAT") is an ad hoc trade association

[2] By orders dated May 6, 1986 and August 6, 1986, the court of appeals stayed issuance of its mandate until September 30, 1986 in order to give the parties a meaningful opportunity to petition for a writ of certiorari (K mart Pet. pp. 34a, 37a). By operation of Rule 41(b) of the Federal Rules of Appellate Procedure, and by virtue of K mart's September 26, 1986 petition, the court of appeals mandate is stayed pending final disposition by this Court.

composed largely of the domestic sales and marketing affiliates of foreign companies which manufacture trademarked goods abroad. Under the Customs Service regulation, COPIAT members do not have the right to the automatic exclusion of parallel imports since the foreign and domestic trademark owners are affiliated. Respondent Cartier, Inc. ("Cartier"), for example, is wholly owned by the Dutch corporation which manufactures CARTIER products overseas. By "assignment" from its Dutch parent company, Cartier claims American rights to the CARTIER trademark. Similarly, Respondent Charles of the Ritz Group, Ltd. ("Charles of the Ritz"), which holds the American license to YVES SAINT LAURENT fragrances, is now owned by the French company Yves Saint Laurent S.A. These COPIAT members and other foreign companies promote their trademarks worldwide and sell identical trademarked products globally,[3] but attempt to charge much higher prices in the United States than elsewhere in the world. Hence, there is an economic incentive for the independent or "parallel" importation of products for sale to American consumers at a substantial price discount.

K mart operates more than 2,000 discount department stores in the United States. K mart purchases parallel imports because of their lower price and because many trademark owners refuse to sell directly to price-competitive retailers including K mart. K mart sells parallel imports to the consumer at up to 40% less than the inflated retail prices which COPIAT members and other foreign manufacturers seek to maintain in the United States.

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[3] Recently the Court of Appeals for the Federal Circuit observed that because of this practice, the American consumer cannot necessarily distinguish between a foreign manufacturer and its affiliated domestic distributor with a similar name. *In re Wella A.G.*, 787 F.2d 1549, 1552-1553 (Fed. Cir. 1986).



**II. The Issues.**

At the outset, it is important to recognize what this case is not about. It is not about protecting "intellectual property rights" of American inventors; parallel imports are manufactured abroad and, in most cases, embody foreign rather than American technological innovation. It is not about "counterfeit" goods; parallel imports are by definition genuine goods which have been manufactured by or for the trademark owner. It has nothing to do with "erosion" of goodwill or "free-riding"; the foreign manufacturer/trademark owner has been fully paid for the trademarked goods. It is not about protecting American manufacturing industries; the American industries in most products which are parallel imported—such as cameras, watches and consumer electronics—have to a large degree already migrated or integrated overseas due to competition from foreign manufacturers.

The case is about foreign multinational companies such as COPIAT members Cartier, Charles of the Ritz, Canon, Carl Zeiss, Minolta, Seiko and Sony which are merely the wholly owned and controlled distributors in the United States for goods manufactured abroad by their foreign parent companies. These foreign companies sell cameras, watches, consumer electronics and many other products abroad at a much lower price than they sell them in the United States, despite the fact that they advertise, sell, guarantee and service the very same trademarked products all over the world.[4]

The foreign companies which own and control the members of COPIAT seek to have the Customs Service preserve the United States as an enclave of high prices by overturning the Customs Service regulation on parallel imports as somehow contrary to Section 526 and the legislative intent behind it.

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[4] However, many COPIAT members wrongly refuse to honor their "world-wide" warranties when United States consumers seek satisfaction for defective merchandise.

As every court save the District of Columbia Circuit has recognized, however, the Customs Service regulation rests on sound historical and public policy footings. Section 526 was enacted in 1922 for the express purpose of protecting independent American companies which had purchased domestic trademark rights from foreign companies, specifically to negate the decision in *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921). There was not, in the 1920's, any significant quantity of parallel imports of the type COPIAT seeks to exclude in this case, and there is nothing to indicate that Congress ever intended Section 526 to protect foreign manufacturers from price competition in their trademarked goods.

Over the past fifty years, a substantial domestic industry has relied on the Customs Service regulation. Parallel importers sell to discount retailers, such as K mart, which cannot obtain brand name merchandise directly from foreign manufacturers or their wholly owned and controlled domestic distributors—the typical COPIAT members. Almost every consumer has purchased a parallel import at some time and will therefore be affected adversely by the decision below, if it is upheld.[5] A consumer who has saved money by purchasing a name-brand imported camera, watch, perfume or consumer electronic from a discount department store, catalog showroom, independent dealer or mail order house has probably purchased a parallel import. Should the decision below prevail, the Customs Service will force American consumers annually to pay hundreds of millions of dollars in fixed retail price overcharges to foreign manufacturers.[6]

[5] Annual retail sales of parallel imports are estimated at $6.0 billion. "The Assault on the Right to Buy Cheap Imports," *Fortune*, Jan. 7, 1985, at 89.

[6] The Federal Trade Commission Staff has concluded that the elimination of parallel imports would harm the consumer without providing any demonstrable economic benefit. Comments of the Bureaus of Competition, Consumer Protection and Economics on



## SUMMARY OF ARGUMENT

Congress first passed the Tariff Act provision at issue in 1922 for a particular, limited purpose, delegating to the Treasury Department and Customs Service its implementation and enforcement. As early as 1936, the Customs Service issued a regulation on parallel imports which did not differ in substance or effect from the regulation which is in force today.

The Customs Service regulation is consistent with the expressed purposes of both the Tariff Act and the Lanham Act. It promotes the public policy objectives of the antitrust laws. Over the past five decades, Congress has repeatedly been advised of and expressly approved the regulation.

It is hard to conceive of a legislative, judicial or regulatory policy which has endured for such a long period. But in holding the Customs Service regulation invalid as contrary to the Tariff Act and its underlying purpose, the court of appeals defied common sense and ignored accepted rules of statutory construction and longstanding trade practice.

## ARGUMENT

The court of appeals misapprehended and misapplied the rules of statutory construction. It held first that Section 526 is so clear on its face that it could be construed in only one way—a way which conflicts with five decades of agency regulations, judicial decisions and executive pronouncements which have construed Section 526, despite its newly discovered "clarity," in a different way. The court of appeals construction is at odds with the law and erroneously shortsighted.

Alternatively, the court of appeals held that Congress did not directly address the question raised by this case

Gray Market Policy Options Facing the United States Customs Service (Oct. 17, 1986).

and that the legislative history is too ambiguous to be relied upon. Nonetheless, the court refused to defer to agency expertise as reflected in an agency practice of over five decades, refused to acknowledge repeated congressional approval of the Customs Service position, and substituted its own novel judgment for that of the agency.

The opinion of the court of appeals will not bear close scrutiny, either as an accurate rendering of the history and purpose of Section 526 of the Tariff Act or as a proper application of the rules of statutory construction.

The Customs Service regulation, unlike the conclusion of the court of appeals, is consistent with original congressional intent, has been repeatedly ratified by subsequent congresses, and promotes public policy objectives.

**I. The Legal Standard.**

A court, when reviewing an agency regulation, need only satisfy itself that the agency has reached a "permissible construction of the statute," *Young v. Community Nutrition Institute*, 106 S.Ct. 2360, 2364 (1986), *quoting Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 842-844 (1984), one that "is reasonably defensible." *Sure-Tan, Inc. v. NLRB*, 104 S.Ct. 2803, 2809 (1984).

An agency interpretation is entitled to considerable deference and need not be "the only one it permissibly could have adopted . . . or even the reading the court would have reached if the question initially had arisen in a judicial proceeding." *Chevron, U.S.A., Inc.*, 467 U.S. at 842 n.11. *See also FEC v. Democratic Senatorial Campaign Committee*, 454 U.S. 27, 39 (1981).

Just last month, the Court reversed the District of Columbia Circuit when it failed to defer to an agency's statutory construction:



> It is settled that courts should give great weight to any reasonable construction of a regulatory statute adopted by the agency charged with the enforcement of that statute. The Comptroller of the Currency is charged with the enforcement of banking laws to an extent that warrants the invocation of this principle with respect to his deliberative conclusions as to the meaning of these laws.

*Clarke v. Securities Industry Ass'n*, 107 S.Ct. 750, 759-760 (1987), *citing Investment Company Institute v. Camp*, 401 U.S. 617, 626-627 (1971).

The Court went on to reject, based on legislative history, the respondent's argument that the Comptroller's position was "not entitled to deference because it contradicts the plain language of the statute." 55 U.S.L.W. at 4115.

In the present case, the District of Columbia Circuit likewise ignored the legal standard for evaluating agency action:

> The interpretation of an agency charged with the administration of a statute is entitled to substantial deference, *Blum v. Bacon*, 457 U.S. 132, 141 (1982), if it is a sensible reading of the statutory language, which it surely is in this case, and if it is not inconsistent with the legislative history . . . .

*Lawrence County v. Lead-Deadwood School District*, 105 S.Ct. 695, 699 (1985). *Accord*, *Zenith Radio Corp. v. United States*, 437 U.S. 443, 450 (1978); *Red Lion Broadcasting Co. v. FCC*, 395 U.S. 367, 381 (1969) (agency construction "should be followed unless there are compelling indications that it is wrong").

**II. The Customs Service Was Directed To Implement And Enforce The Tariff Act.**

It is undisputed that the Customs Service, in promulgating 19 C.F.R. § 133.21, followed the rulemaking procedures required by the Administrative Procedure Act, 5

U.S.C. § 701 *et seq.* On December 19, 1970, the Customs Service issued a Notice of Proposed Rulemaking[7] and on October 3, 1972, published a Final Notice[8] adopting what is now 19 C.F.R. § 133.21.

Since at least 1890, the Customs Service has implemented statutes affecting the importation of trademarked articles. *See A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923), *answering questions certified at* 292 F. 1013 (2d Cir. 1922). This authority derives from 19 U.S.C. § 66, which, since 1820, has delegated to the Secretary of the Treasury the duty to prescribe the "rules and regulations . . . as may be necessary for the proper execution of the [Customs] law." With specific regard to the Tariff Act of 1930, Title 19, Chap. 4, "the Secretary of the Treasury is authorized to make such rules and regulations as may be necessary to carry out the provisions of this chapter." 19 U.S.C. § 1624.

As the Court has recognized, "Congress has declared [that agency rules promulgated under an express delegation of authority] shall have the full force and effect of law." *General Electric Co. v. Gilbert*, 429 U.S. 125, 141 (1976), *citing Standard Oil Co. v. Johnson*, 316 U.S. 481 (1942). *See also Batterton v. Francis*, 432 U.S. 416, 425 (1977). Courts have applied this rule in the context of many different legislative schemes.[9] This power in-

[7] 35 Fed. Reg. 19,269.

[8] 37 Fed. Reg. 20,677.

[9] In *Batterton*, regulations under Title IV of the Social Security Act were held to have legislative effect.

In *Mourning v. Family Publications Service, Inc.*, 411 U.S. 356 (1973), the Court sustained the authority of the Federal Reserve Board to promulgate rules under the Truth-in-Lending Act:

> Where the empowering provision of a statute states simply that the agency may "make . . . such rules and regulations as may be necessary to carry out the provisions of this Act," we have held that the validity of a regulation promulgated



clude the "power to make rules that affect substantial individual rights and obligations." *Morton v. Ruiz*, 415 U.S. 199, 233 (1974). A reviewing court is not free to set aside such regulations simply because it would interpret the statute in a different manner. *Batterton*, 432 U.S. at 425, *citing American Telephone and Telegraph Co. v. United States*, 299 U.S. 222, 235-237 (1936).

In short, a statute which broadly authorizes an agency to issue regulations thereby authorizes the agency to issue substantive rules which have the force and effect of law. *See, e.g., Chrysler Corp. v. Brown*, 441 U.S. 281, 808 (1979); *FPC v. Texaco, Inc.*, 377 U.S. 88 (1964); *United States v. Storer Broadcasting Co.*, 351 U.S. 192 (1956); *National Broadcasting Co. v. United States*, 319 U.S. 190 (1943).[10]

> thereunder will be sustained so long as it is "reasonably related to the purposes of the enabling legislation."

411 U.S. at 369.

In *American Trucking Ass'n v. United States*, 344 U.S. 298 (1953), the Court upheld Interstate Commerce Commission authority to regulate the trucking industry. The Court rejected the argument that the ICC had exceeded its authority because the statute lacked an express delegation regarding the practices in question:

> We hold then that the promulgation of these rules for authorized carriers falls within the Commission's power, despite the absence of specific reference to leasing practices in the Act. The grant of general rule-making power necessary for enforcement compels this result.

344 U.S. at 312, citations omitted.

[10] The specific authority of the Department of the Treasury and the Customs Service to promulgate substantive rules regarding importation has been upheld in *Tex Mex Brick & Import Co. v. United States*, 305 F.Supp. 927 (Cust. Ct. 1969), *aff'd*, 449 F.2d 1898 (C.C.P.A. 1971), which held that 19 C.F.R. § 16.9 created binding obligations on importers and customs officials. The court emphasized that "[c]ustoms regulations, authorized by law, are mandatory and have the force and effect of law." 305 F.Supp. at 931.

Thus, unless the Customs Service regulation is not "reasonably defensible" or a "permissible construction of the statute," it should be upheld and is entitled to the force and effect of law.

Alternatively, the Customs Service regulation should be upheld as a proper exercise of agency enforcement discretion. In *Heckler v. Chaney*, 105 S.Ct. 1649, 1659 (1985), the Court held that a decision not to enforce a statute to its fullest extent is committed to agency discretion, at least in an individual instance. An agency decision not to enforce a statute to its farthest limits is thus generally left for Congress to review. 105 S.Ct. at 1657. This approach recognizes that a myriad of factors go into agency enforcement decisions and that the agency has an advantage over the courts in applying those factors to the situations it faces on a regular basis. 105 S.Ct. at 1656. As the Federal Circuit recognized in *Vivitar*,[11] and the Second Circuit recognized in *Olympus*,[12] the Customs Service is entitled to exercise reasonable discretion in its enforcement of Section 526.

The Customs Service regulation viewed in this light represents an agency decision not to enforce Section 526 to its farthest possible limit. That is, rather than automatically excluding all parallel imports, the Customs Service has followed congressional intent and chosen to engage in administrative enforcement only in clear-cut cases. The court below, without citing anything, posited, however, that "the Customs Service has never purported to justify these regulations as an exercise of enforcement discretion." 790 F.2d at 918 (K mart Pet. p. 31a). This statement is contradicted by the government's stated position in this case. Moreover, as the Second Circuit recognized, the regulation can be upheld on the theory of enforcement discretion, even if the agency itself did

[11] 761 F.2d 1552, 1568-1570.

[12] 792 F.2d 315, 320-321.



not advance the theory. *SEC v. Chenery Corp.*, 318 U.S. 80, 88 (1943). *See Olympus*, 792 F.2d 315, 321 n.1 (2d Cir. 1986).

**III. The Customs Service Regulation Is Consistent With Congressional Intent.**

Section 526 of the Tariff Act is not clear on its face, and thus resort to the legislative history is appropriate to determine the congressional purpose and whether the Customs Service regulation is reasonable. *Mills Music, Inc. v. Snyder*, 105 S. Ct. 638, 641 (1985) ("Before focusing on the meaning of the key phrase, we shall describe . . . the circumstances surrounding Congress' adoption of the 1976 Act . . . ."); *Dickerson v. New Banner Institute, Inc.*, 460 U.S. 103, 118 (1983) ("[O]ur task is to interpret the words of [the statute] in light of the purposes Congress sought to serve." (citation omitted)); *United States v. Turkette*, 452 U.S. 576, 580 (1981), *quoting CPSC v. GTE Sylvania, Inc.*, 447 U.S. 102, 108 (1980) (language not conclusive in light of "clearly expressed legislative intent to the contrary"); *Griggs v. Duke Power Co.*, 401 U.S. 424, 434 (1971).[13]

If the court below was correct in its "literal" reading of Section 526, that reading cannot prevail if it is "plainly at variance with the policy of the legislation as a whole." *United States v. American Trucking Ass'n*, 310 U.S. 534, 543 (1940).

This approach was outlined in *Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 104 S. Ct.

[13] There are virtually no cases in which legislative history will not be examined. *See, e.g., Zenith Radio Corp. v. United States*, 437 U.S. 443 (1978). *See also* P. Wald, Some Observations on the Use of Legislative History in the 1981 Supreme Court Term, 68 Iowa L. Rev. 195 (1983).

2778 (1984).[14] First, a court must examine the language and legislative history of the statute to determine "whether Congress has directly spoken to the precise question at issue"; if it has not, the court should interpret Congressional silence as an authorization for the agency to fill the gap.[15] Second, having inferred such a delegation of authority, the court must determine whether the agency's construction is reasonable.[16]

Even the court of appeals conceded that Congress has not "directly spoken to the precise question at issue." First, there is no indication whatsoever that in 1922, multinational enterprises were using trademark licenses to divide world markets and insulate the United States from price competition.[17] Second, had Congress directly spoken with the clarity required by *Chevron*, the COPIAT position would not have been rejected by so many courts over the past decades.[18]

Recently in *Lawrence County v. Lead-Deadwood School District*, 105 S. Ct. 695 (1985), the Court had to construe the following statutory language: "A [local government] unit may use the [federal] payment for any governmental purpose." A more simple and straightforward declaratory English sentence can hardly be imagined, especially when compared with the turgid prose of Section 526. Yet the South Dakota Supreme Court read it wrong:

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[14] *See* The Supreme Court, 1983 Term, 98 Harv. L. Rev. 1, 247-255 (1984).

[15] 104 S. Ct. at 2781-2782, 2793.

[16] 104 S. Ct. at 2781-2783.

[17] In fact, Section 526 was enacted to deal with the very specific trademark fraud situation in *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923), which had nothing to do with parallel import distribution competition.

[18] See cases cited in note 1 above.



> Contrary to the views expressed in the court below, [the statutory language] does not of its own force dispose of the county's case. Resort to other indicia of the meaning of the statutory language is therefore appropriate.

105 S. Ct. at 699. The Court went on to examine the legislative history.

The usual sources of legislative intent are floor debates, sponsors' statements, and committee reports.[19] These sources, when read fairly, yield a clear picture of the purpose behind Section 526 and demonstrate the reasonableness of the Customs Service regulation. The court of appeals, however, dismissed these expressions of congressional intent by speculating that: the sponsors of Section 526 did not really understand the *Katzel* decision which motivated them;[20] the conference committee mistakenly believed that *Katzel* was an import exclusion case rather than a trademark infringement case;[21] and proponents and opponents of Section 526 respectively understated and exaggerated the significance of the legislation (and thus their statements cannot be accepted at face value).[22]

By contriving an excuse for disregarding the clearest expressions of legislative intent, the court of appeals

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[19] *See Chevron, U.S.A., Inc. v. National Resources Defense Council, Inc.*, 104 S. Ct. 2778, 2786-2787 (1984); *Sure-Tan, Inc. v. NLRB*, 104 S. Ct. 2803, 2809-2810 (1984); *Secretary of the Interior v. California*, 104 S. Ct. 656, 661-663 (1984); *Garcia v. United States*, 105 S. Ct. 479, 482 (1984); *Mills Music, Inc. v. Snyder*, 105 S. Ct. 638, 643 (1985); *Lawrence County v. Lead-Deadwood School District*, 105 S. Ct. 695, 699 (1985); *Chemical Manufacturers Ass'n v. Natural Resources Defense Council, Inc.*, 105 S. Ct. 1102, 1108 (1985).

[20] 790 F.2d at 911 (K mart Pet. p. 17a).

[21] 790 F.2d at 910 (K mart Pet. pp. 15a-16a).

[22] 790 F.2d at 912 (K mart Pet. p. 19a).

reached an absurd result which is directly contrary to any conceivable intention of the protectionist Congresses of the 1920's and 1930's—that Section 526 protects foreign manufacturers and foreign trademark owners at the expense of American consumers. We therefore turn to the legislative history.

The legislative history of Section 526 is replete with uncontradicted references to the reason for its passage, namely, to negate the holding of the Second Circuit in *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921) ("*Katzel*").[23]

The facts in *Katzel* were simple: an American company had purchased from a French manufacturer all American rights to the manufacture and sale of face powder bearing the JAVA trademark. Over a period of years, the American company had come to be identified by the American public as the source of JAVA face powder, thanks to extensive advertising, to repackaging of French bulk powders in new containers and to careful blending of colors uniquely suitable to the American market.[24] 260 U.S. at 691. In short, the JAVA face powder sold in America was not the same as the JAVA face powder sold in France, and the American and French trademark owners were separate and unrelated companies.

When another American retailer purchased face powder from the French manufacturer, imported it into the United States and sold it to American consumers under the JAVA trademark, the American trademark owner

[23] After Section 526 was enacted, the Supreme Court also reversed the Second Circuit. 260 U.S. 689 (1923).

[24] As the Supreme Court briefs in *Katzel* explain, the American trademark owner sifted and recolored the bulk powder before repackaging it in new boxes (which were made in America). Brief for Petitioner at 10, *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1912) (No. 190, Jan. 8, 1923).



sued. The Second Circuit held that the American trademark owner had no cause of action. Both Congress and the Supreme Court sensed a fraud and sought to remedy the inequity—Congress by passing Section 526 and the Supreme Court by reversing the Second Circuit.[25]

Justice Holmes, in a brief opinion, held that it would be unfair for the French manufacturer to have its goods marketed in the United States by anyone other than the American trademark owner who had purchased all JAVA rights from the French manufacturer. Such a "contrivance" "for the purpose of evading the effect of the transfer" of trademark rights "must fail." 260 U.S. at 691.[26]

Congress in 1922 likewise wanted specifically to overrule *Katzel* and generally to protect the contractual property rights of independent American manufacturers and producers who, as the plaintiff in *Katzel*, had purchased full trademark rights from a foreign company.[27]

Senator Sutherland, a sponsor of the 1922 legislation which became Section 526 when it was reenacted in the

[25] The present Customs Service regulation is consistent with the final judicial resolution of *Katzel*. Since the American trademark owner was not affiliated with the French manufacturer and the JAVA trademark had not been applied to the French goods with the authorization of the American trademark owner, JAVA face powder could be imported only by the American trademark owner under 19 C.F.R. § 133.21(c) (1986).

[26] COPIAT, on the other hand, would have the Customs Service and courts recognize and enforce "transfers" and "assignments" of trademark rights from a foreign parent company to its wholly owned domestic subsidiary—"contrivances" to charge American consumers higher prices for foreign products than consumers pay anywhere else in the world.

[27] Given the highly protectionist attitude which prevailed in the 1920's and 1930's, it is ludicrous to suggest that Congress "intended" section 526 to benefit foreign manufacturers in any way —especially not to insulate them from price competition and not to allow them to gouge the American consumer.

Tariff Act of 1930, succinctly expressed the legislative purpose:

> Mr. President, all that this paragraph does is to prevent fraud, and I believe that the Senate is in favor of protecting the property rights of American citizens who have purchased trade-marks from foreigners, and when these foreigners deliberately violate the property rights of those to whom they have sold these trade-marks by shipping over to this country goods under those identical trade-marks.

62 Cong. Rec. S 11,603 (Aug. 19, 1922).

The conference report also reflects the Congressional purpose to protect from foreign competition American companies which had acquired American rights to a foreign trademark and applied that trademark to goods which they manufactured in America, like the plaintiff did in *Katzel:*

> A recent decision of the circuit court of appeals [*i.e., Katzel*] holds that existing law does not prevent the importation of merchandise bearing the same trademark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. [Section 526] makes such importation unlawful without the consent of the owner of the American trademark *in order to protect the American manufacturer or producer.*[28]

H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922) (emphasis supplied). The conference report accurately described *Katzel*, since in *Katzel* the American trademark owner did not merely import and sell JAVA powder packaged by the French manufacturer (as the typical

[28] Amazingly, the court of appeals deleted the underlined portion of this quotation, thereby seriously misleading the casual reader as to the congressional purpose in passing Section 526. 790 F.2d at 910 (K mart Pet. p. 15a).



COPIAT member would).[29] The American trademark owner repackaged bulk French powder in new JAVA-labelled containers, selected colors uniquely suitable to the American market, sifted and recolored the bulk French powder and thus had come to be identified by the American consumer as the source of JAVA powder.[30] In short, the American owner of the JAVA trademark, unlike Cartier, Charles of the Ritz, Seiko and other COPIAT members who manufacture nothing in the United States, was precisely the "American manufacturer or producer" which the 1922 Congress stated that it wanted to protect.

Incredibly, the court of appeals regards this passage from the conference report and Justice Holmes' *Katzel* decision as primarily important for establishing "what has come to be called the 'territoriality' theory of trademark," 790 F.2d at 909 (K mart Pet. p. 14a), which, the court of appeals posits, Congress subsequently embraced in passing Section 526.

This is simply incorrect. Nothing in *Katzel* indicates that Justice Holmes endorsed such a concept. In fact, in *Katzel*, the French and American powders were different and Justice Holmes found that since the French manufacturer had sold all its American rights to JAVA, it subsequently "could not convey [JAVA] goods free from the restriction to which [the manufacturer was] subject." 260 U.S. at 692. Moreover, after the transfer of rights, the American trademark owner had developed an independent goodwill in JAVA such that "the labels have

[29] As the Supreme Court brief in *Katzel* explains, the American owner of the JAVA trademark recolored and sifted bulk powder from the French manufacturer and could buy powder from any source in the world or manufacture the powder itself and place the JAVA trademark on it. Brief for Petitioner at 9-10, *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1912) (No. 190, Jan. 8, 1923).

[30] Brief for Petitioner at 10, *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1912) (No. 190, Jan. 8, 1923).

come to be understood by the public here as meaning goods coming from the plaintiff" rather than from the French manufacturer. 260 U.S. at 691.

If there were any doubt about the position of the petitioner in *Katzel* on "trademark territoriality," it is resolved by reference to the Petitioner's Brief:

> A purchaser of Eternelle violin strings expects to receive Muller's famous German product and he is not interested in the identity of Muller's New York exclusive selling agent.
>
> * * * *
>
> [T]he sale in the United States of violin strings, sold here under the name "Eternelle" and known throughout the United States as being the product and output of Muller of Germany, would in no sense undermine Muller's market in the United States *whether imported through his exclusive agent in New York or through any other concern; on the contrary, so far as Muller's trade with the United States is concerned, which is the trade the United States recognizes, Muller's business would only be fostered.*

Brief for Petitioner at 22-23, 27, *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923) (No. 190, Jan. 8, 1923) (emphasis supplied). It is likewise so with Cartier, Charles of the Ritz, Seiko and other COPIAT members. When their trademarked products are purchased abroad from their foreign parent companies and parallel imported into the United States, their overall "business would only be fostered"—except, of course, insofar as they would prefer to reap unconscionable profits by trying to force the American consumer to pay a much higher price for the identical merchandise purchased through their wholly owned "exclusive agents" or captive dealers in the United States. Of course, the American consumer "is not interested in the identity of [any COPIAT member's] New York exclusive selling agent."



If there were any doubt about Justice Holmes' position, it was resolved by his soon-to-follow decision in *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924). There, the French manufacturer of COTY cosmetics complained that Prestonettes was using the COTY trademark on COTY cosmetics which Prestonettes had imported in bulk and repackaged in smaller containers. (In contrast, the petitioner in *Katzel* was remanufacturing French powder and selling it under the JAVA trademark which it had purchased.) Justice Holmes ruled that Prestonettes could identify its repackaged cosmetics as COTY, since that is what they were: "A trade-mark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of another's product as his." 264 U.S. at 368. COTY cosmetics were COTY cosmetics, regardless of who sold them; and it is just so today with CARTIER, CHARLES OF THE RITZ, SEIKO and SONY products.

Perhaps Congress did not properly understand the facts of *Katzel* or fully appreciate how Section 526 would be misread by the District of Columbia Circuit some six decades later. The legislative purpose, however, could hardly be more clearly stated, and it was emphatically not to protect foreign manufacturers and harm American citizens by preventing the importation of genuine trademarked goods when a single multinational enterprise manufactures trademarked goods abroad and markets them worldwide. Yet that is the admitted result of the decision below. 790 F.2d at 917-918 (K mart Pet. pp. 30a-31a).[31]

[31] It is the conceded intention of Cartier, Charles of the Ritz, Seiko and the other members of COPIAT to use the Customs Service to enforce, on the pretext of trademark rights, territorial distribution restrictions which are designed to make American consumers pay higher prices than consumers anywhere else in the world for foreign merchandise. American manufacturers, on the other hand, cannot enlist governmental agencies to enforce territorial restrictions or other arguably anticompetitive contractual

The present Customs Service regulation on parallel imports, in contrast, is fully consistent with these earliest expressions of Congressional intent and judicial construction of the tariff and trademark statutes: American producers and manufacturers are protected from "unauthorized" imports; American consumers are protected from non-genuine goods; and purchasers of American rights to foreign trademarks are protected from fraud. Moreover, the Congressional purpose has been achieved without expanding trademark rights to the detriment of the American consumer or the public good.

In short, by a "literal" reading of the statutory language and highly selective, if not misleading, references to the legislative history, the court of appeals has distorted Section 526 to reach a tortured construction at odds with the legislative purpose. Even if the statutory language were a model of clarity, the court of appeals approach is contrary to the rule that the purpose of legislation, rather than its literal words, should be followed if the statutory language seems "plainly at variance with the policy of the legislation as a whole." *United States v. American Trucking Ass'n*, 410 U.S. 534, 543 (1940).

The court of appeals approach to legislative history cannot be condoned. If a court is free to disregard floor debate by characterizing it as exaggeration or understatement, to ignore sponsors' statements by labelling them mistaken, to reject conference reports as misinformed, and to distort quotations from all of these sources, the process of judicial review becomes a mockery of logic and consistency.

**IV. The Customs Service Regulation Has Been Ratified By Congress.**

The court of appeals dismissed the contradiction between the public interest and its reading of Section 526 by admonishing those who have relied on the Customs

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arrangements either in the United States or abroad. See Section V.C. below.



Service regulation for over five decades that "these arguments are properly addressed to Congress." 790 F.2d at 918 (K mart Pet. p. 31a). This disingenuous suggestion ignores the fact: (a) that Congress delegated to the Customs Service the authority to adopt rules and regulations to carry out Section 526, with the public interest in mind; and (b) that Congress has indeed considered "these arguments" many times over the past sixty years. Congress has been apprised of the Customs Service interpretation of Section 526 and Congress has both approved it and consciously not modified it. As the Second Circuit stated in *Olympus*, "congressional acquiescence in the longstanding administrative interpretation of the statute legitimates that interpretation." 792 F.2d at 320. The court below, however, mischaracterized repeated congressional references to the Customs Service regulation on parallel imports as legislative "silence," 790 F.2d at 914 (K mart Pet. p. 23a), when Congress has been anything but silent on this issue.

Under the doctrine of legislative ratification, where Congress has revisited a statute, is aware of the administrative interpretation, and does nothing to interfere with it, a court is to presume that the agency interpretation correctly reflects Congressional intent. In *United States v. Rutherford*, 442 U.S. 544 (1979), the Court stated:

> [T]he construction of a statute by those charged with its administration is entitled to substantial deference. Such deference is particularly appropriate where, as here, an agency's interpretation involves issues of considerable public controversy, and Congress has not acted to correct any misperception of its statutory objectives.

442 U.S. at 553-554 (citations omitted). The Court continued in a footnote:

> [O]nce an agency's statutory construction has been "fully brought to the attention of the public and the Congress," and the latter has not sought to alter the interpretation although it has amended the statute

in other respects, then presumably the legislative intent has been correctly discerned.

442 U.S. at 554 n.10. *Accord, Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Curran,* 456 U.S. 353, 382 n.66 (1982); *Haig v. Agee,* 453 U.S. 280, 297-298 (1981). Similarly, when Congress has been specifically informed of an agency's interpretation of a statute and yet does not act to modify the interpretation when "enacting . . . related legislation," Congressional "acquiescence . . . and ratification" may be presumed. *Bob Jones University v. United States,* 461 U.S. 574, 599 (1983). A glance at the United States Code Annotated shows that Congress has actually amended Section 526 four times since 1922. When Congress passed these amendments—as well as when it considered but did not pass other proposed amendments—it ratified the prevailing Customs Service interpretation and implementation of Section 526.

The original congressional intent in 1922, as described in Section III above, was first reiterated when the statutory provision was reenacted as Section 526 of the Tariff Act of 1930. Senate Reed stated his understanding of Section 526 during debate:

> Obviously the purpose of that provision is to protect the American owner of the trade-mark against importations of articles which have been stamped with his mark without his consent.

71 Cong. Rec. S 3,873 (Sept. 23, 1929).[32]

In the early 1940's, Congress was advised of and approved the 1936 Customs Service regulation (in the trademark context) when the Lanham Act was passed. Indeed, the Tariff Commission memorandum discussing the

[32] Since articles manufactured abroad by the parent, subsidiary or licensee of an American trademark holder have been marked with its consent, they do not come within the ambit of Section 526 as it was understood and intended by Congress in 1930. Senator Reed's statement reflects the substance of 19 C.F.R. § 133.21(c)(3).



1936 regulation was incorporated in the legislative history of the Lanham Act:

> In 1936 (T.D. 48537) the Treasury Department made important changes in the regulations. . . . The new regulations provided . . . that merchandise manufactured in a foreign country under a trademark is not to be deemed for the purpose of these regulations to "copy or simulate" such United States trade-mark if such foreign trade-mark and such United States trade-mark are owned by the same person.

Trademarks: Hearings On H.R. 82 Before a Subcommittee of the Senate Committee On Patents, 78th Cong., 2d Sess. 86 (1944). In short, Congress expressly ratified the Customs Service regulation regarding parallel importation when it passed the Lanham Act in 1946.

In 1951, the Customs Service interpretation of Section 526 was again presented to Congress when the Customs Service responded to an inquiry from Senator Douglas by explaining in detail the Customs Service regulation and its application to parallel imports. Letter from Frank Dow, Commissioner of Customs, to Senator Paul Douglas (March 23, 1951) (J.A. 52).

In 1954, the proposed Customs Simplification Act would have excepted American trademark holders with foreign affiliates from Section 526 protection, a statutory equivalent of 19 C.F.R. § 133.21(c)(1) and (2). Congress was advised by the Treasury Department that the provision was meant "to confirm the present regulations which Customs [had] outstanding" under Section 526.[33] This portion of the bill was deleted during House hearings by unanimous consent and with the concurrence of the Treasury Department.[34]

[33] Hearings on H.R. 9476 (Customs Simplification Act of 1954) before the House Committee on Ways and Means, 83d Cong., 2d Sess. 9 (1954).

[34] The court of appeals wrongly characterizes this as a "defeat" of the legislation which indicates congressional disapproval of the

In 1959, a proposal to repeal Section 526 was introduced, but no hearings were held and it was never reported out of committee.[35]

In connection with the Customs Procedural Reform and Simplification Act of 1978,[36] the House Ways and Means Committee also specifically recognized the Customs Service parallel import practice:

> [Section 526] has been consistently interpreted by the United States Customs Service for the past 20 year as excluding from protection foreign-produced merchandise bearing a genuine trademark created, owned, and registered by a citizen of the United States if the foreign producer has been authorized by the American trademark owners to produce and sell abroad goods bearing the recorded trademark.

H.R. Rep. No. 621, 95th Cong., 1st Sess. 27 (1977).[37]

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Customs Service regulation. 790 F.2d at 915 (K mart Pet. p. 25a). There is no indication that Congress disapproved of the Customs Service regulation in 1954; to the contrary, it would have been unnecessary for Congress to enact legislation when it agreed that the existing regulation was proper. Had Congress disapproved of the regulation, it would have enacted appropriate legislation to change it, as in 1978 when Congress disagreed with Customs Service restrictions on the importation of trademarked merchandise for personal use. Congress overruled the Customs Service by legislating an exception. 19 U.S.C. § 1526(d). 790 F.2d at 916 (K mart Pet. pp. 27a-28a). This reversed *Sturges v. Clark D. Pease, Inc.*, 48 F.2d 1035 (2d Cir. 1931).

[35] The proposal was not "rejected" by Congress, as the court of appeals wrongly stated. 790 F.2d at 915 (K mart Pet. p. 26a).

[36] Pub. L. No. 94-410, 92 Stat. 888, 903.

[37] The court of appeals found this inconclusive because neither the Senate Report nor the Conference Report referred to the Customs Service practice. 790 F.2d at 916 (K mart Pet. p. 28a). Presumably, however, these reports would have reflected any disagreement with the House Report or with the Customs Service, if any such disagreement had existed.



Any lingering doubt about Congressional awareness of Customs Service regulation on parallel imports is dispelled by the Senate Report on the Trademark Counterfeiting Act of 1984:[38]

> [The Act] does not include within its coverage so-called "gray-market" goods—i.e., authentic trademarked goods that have been obtained from overseas markets. The importation of such goods is legal under certain circumstances. For example, the Treasury Department has long interpreted section 526 . . . to permit the importation of such goods when the foreign and domestic users of the trademark are affiliated through common ownership and control. *See* 19 C.F.R. § 133.31(c).

S. Rep. No. 98-526, 98th Cong., 2d Sess. 3 (1984), *reprinted in* 1984 U.S. Code Cong. & Admin. News 3627, 3629.

Most recently, Congress considered the issue of parallel imports in connection with imported wines and spirits. States such as Washington, Pennsylvania and Virginia have each saved their consumers some $20 million annually by parallel importing rather than purchasing through "authorized" beverage distributors. A testing and labelling requirement which would have effectively banned these parallel imports was denounced on the floor of the House as a "price-fixing bill" which would "establish a monopoly, plain and simple." 132 Cong. Rec. H 11,083 (daily ed. Oct. 15, 1986).

Not surprisingly, the congressional debate in 1986 was not much different from that of 1922. Congressman Dicks accurately described the effect of a ban on parallel imports:

> [W]hat you are doing is creating a monopoly for the importers of these various brands. You are creating a monopoly.

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[38] Pub. L. No. 98-473, Chap. XV, 98 Stat. 2178.

> Now with the parallel market in Europe, the States that have controlled liquor can buy on the parallel market for a vastly reduced cost to the consumers of the various States.

132 Cong. Rec. H 11,081 (daily ed. Oct. 15, 1986). The opponents of parallel liquor imports raised a "health and safety" argument not unlike COPIAT's "intellectual property" argument. Congressman Frenzel, however, recognized the sham:

> In my judgment, the amendment purports to address potential health hazards of certain wine, beer, and spirits imports; nevertheless, its real purpose [is] to preclude the importation of parallel or gray market imports of these products.
>
> * * * *
>
> I believe that in prohibiting parallel imports we would create a precedent that would aid those who are attempting to eliminate all parallel imports in the future. I am sure that that is a precedent that most of us do not want. Gray market purchases have not caused substantial business losses from authorized dealers. They have given many consumers an opportunity to purchase goods that they would not otherwise be able to purchase.

132 Cong. Rec. H 11,082 (daily ed. Oct. 15, 1986).

In the course of this debate, Congress again recognized the Customs Service interpretation of Section 526 which allows parallel imports. As Congressman Gray stated:

> This amendment also has the potential of setting a very dangerous precedent by protecting a certain class of manufacturers and importers, where in fact we do not treat others, most notably in the area of sporting goods, electronic items, and literally millions of dollars in other imported items.

132 Cong. Rec. H 11,083 (daily ed. Oct. 15, 1985).

The proposal was soundly defeated by a vote of 297 to 113.



In short, the Customs Service regulation has not been kept a secret from Congress and the public for over five decades, and Congress has not been "silent" on the subject of parallel imports. Congress has often considered amending Section 526, either to codify parts of the Customs Service regulation or to repeal Section 526 altogether. 790 F.2d at 914-916 (K mart Pet. pp. 23a-28a). From this, *Rutherford* mandates judicial acceptance of the Customs Service reading of legislative intent. For the court below to mischaracterize this history as legislative "silence," 790 F.2d at 914 (K mart Pet. p. 23a), is another gross distortion of judicial review.

### V. The Customs Service Regulation Has Been Consistent And Comports With Public Policy.

Even if the court of appeals were correct that the legislative history of Section 526 is ambiguous and that Congress has not somehow ratified the Customs Service policy on parallel imports, the regulation is sufficiently reasonable to be sustained.

#### A. *The Customs Service Has Been Consistent.*

The Customs Service policy on parallel imports has been carried out for fifty years, insofar as the regulation adopted in 1936 [39] does not differ in any material respect from the provision in force today.[40] Although the 1936 regulation is the first to mention an exception from Section 526 protection where the United States and foreign trademark holders are commonly owned, there is no evidence of a contrary Customs Service practice prior to that date.

The court of appeals cites Customs Service regulations of 1923 [41] and 1931,[42] which merely recited or adopted

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[39] 1 Fed. Reg. 1,725 (1936) (T.D. 48,537) (J.A. 27-28).

[40] 19 C.F.R. § 133.21.

[41] Article 475, Customs Regulations of 1923 (T.D. 40,380) (J.A. 17).

[42] Article 518, Customs Regulations of 1931 (J.A. 23).

by reference Section 526, as proof that the Customs Service has not interpreted Section 526 consistently. 790 F.2d at 914 (K mart Pet. p. 22a). This conclusion is incorrect, even if it were incumbent on the agency to demonstrate six decades of uniform enforcement policy.

There is no evidence cited by the court of appeals either: to suggest that in the 1920's foreign manufacturers by the thousands were establishing wholly-owned distributors in the United States; or to indicate that the Customs Service ever enforced Section 526 in any way other than the way in which the regulation is now phrased. This is stated expressly in the 1977 House Report cited in Section IV above (covering at least the twenty year period from 1957 to 1977) and is the conclusion of authorities on the Customs law:

> Actually, [Customs] had *always* denied complete exclusionary protection to an American trademark registrant when it knew the importer to be a subsidiary or parent of the foreign user of the trademark. Prior to 1953, however, the Customs Regulations were not set up to specifically elicit this kind of information.

J. Atwood, Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs, 59 Trademark Rep. 301, 307 (1969) (emphasis supplied).

The Customs Service has never repudiated the policy clearly expressed in its 1936 regulation, *i.e.*, that foreign goods bearing a trademark owned in the foreign country "by the same person" who owns the domestic trademark should not be excluded on trademark or tariff grounds. A 1953 revision of Customs Service regulations did not change this basic rule. Instead, it added to the "same person" language published in 1936 the phrase "or by a related company as defined in Section 45 of the Trademark Act of 1946." [43] This language was clearly consistent with the "same person" requirement of the 1936 regulation. The "related company" reference merely clarified the concept that if the domestic trademark owner controls or is controlled by the foreign company, parallel importation is permitted.



The addition of this language in 1953 solidified the previous rule prohibiting controlled arms of a United States trademark owner from dividing world markets. The "same person" provision of the 1936 rule clearly encompassed a "controlled" entity overseas, as the Commissioner of Customs explained to Senator Paul Douglas in 1951:

> However, if the United States trade-mark owner and the owner of the foreign rights to the same mark are one and the same person, articles produced and sold abroad by the foreign owner may be imported by anyone for the reason that the trade-mark owner has himself introduced the articles into commerce or authorized such introduction and may not unreasonably restrict the use of the product thereafter. For this purpose a foreign subsidiary or licensee of the United States trade-mark owner is considered to stand in the same shoes as such trade-mark owner.[44]

(J.A. 53).

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[43] T.D. 53,399 (J.A. 56). The Lanham Act defines related company as follows:

> The term "related company" means any person who legitimately controls or is controlled by the registrant or applicant for registration in respect to the nature and quality of the goods or services in connection with which the mark is used.

15 U.S.C. § 1127.

[44] This letter makes it quite clear that a controlled licensee falls within the parameter of the 1950's regulation, despite the nature of the financial affiliation between that licensee and the registrant. This language harmonizes any possible disparity between the intent of the 1936 regulation and the 1953 reference to the "related companies" provision of the Lanham Act.

The "related company" language was deleted in 1959.[45] However, after 1959, just as prior to 1953, the Customs Service viewed the American and foreign owners of a trademark as "the same person" if they were parent and subsidiary or otherwise under common control; Mr. Atwood stresses that foreign trademarked merchandise could be imported by anyone where "the American registered mark is owned or controlled by a foreign firm or an American firm under foreign ownership or control . . . ." Atwood at 310.[46]

A 1968 Treasury Decision again explicitly made the "parent-subsidiary relationship" and "control" the critical factors to determine if foreign goods could be imported by other than the captive domestic distributor:

> The trademark or trade name on imported foreign-produced merchandise shall not be deemed to copy or simulate a registered trademark or trade name, if the foreign producer is the parent or subsidiary of the American owner or the firms are under a common control. Further, if a foreign producer has been authorized by the American owner to produce and sell goods abroad bearing the recorded trademark or trade name, merchandise so produced and sold is deemed admissible.

T.D. 69-12(2) (1968) (J.A. 65).

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[45] T.D. 54,932 (1959) (J.A. 61).

[46] Atwood's view is supported by letters written by the Customs Service to trademark holders during the 1950's and 1960's. Letter from Frank Dow, Commissioner of Customs, to Senator Paul Douglas (March 23, 1951) (J.A. 52); letter from B.H. Flinn, Deputy Commissioner of Customs, to Walter A. Slowinski (July 2, 1962) (J.A. 62); letter from B.H. Flinn, Deputy Commissioner of Customs, to Selig J. Levitan (March 15, 1963) (J.A. 63).



Following this consistent course, the Customs Service promulgated and published in 1972 the regulatory text now under challenge.[47] This regulation spells out the fact that either a financial relationship or control will justify the free importation of trademarked goods.[48] It is simply wrong for the court of appeals to surmise that the Customs Service policy was initiated only in 1972 as a response to *United States v. Guerlain, Inc.*, 172 F. Supp. 107 (S.D.N.Y. 1959).[49]

Even if the court of appeals were correct that the Customs Service regulation has been in effect only since 1972, this 14-year period is itself sufficient to accord the agency practice considerable respect. *Lawrence County v. Lead-Deadwood School District*, 105 S.Ct. 695, 699 (1985) (deferring to agency practice of eight years).

Given the changes in the American attitude toward foreign trade (and the antitrust laws) since 1922, it is not surprising that the wording of the Customs Service regulation has changed a bit or that the justification for the regulation has varied; it would be a rare policy, whether executive, judicial, legislative or administrative

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[47] 37 Fed. Reg. 20,677 (Oct. 3, 1972); 19 C.F.R. § 133.21.

[48] *See* 19 C.F.R. § 133.21(c)(1), (2), and (3).

[49] The court of appeals cited instances of seeming interagency "confusion" in *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983), and *Guerlain, Inc. v. United States*, 358 U.S. 915 (1958). The government has explained that in *Bell & Howell*, the Antitrust Division took the position that broad enforcement of Section 526 was not necessarily inconsistent with the antitrust laws. In *Guerlain*, the Customs Service had construed its regulation as not applying to the defendants because the corporate relationship between the foreign and domestic trademark owners was unclear; as Atwood notes, the Customs Service at that time did not elicit the necessary information to make such a determination.

which remained absolutely static and unchanged for over six decades.[50]

There was yet another reason for the court of appeals not to disturb the Customs Service regulation on parallel imports.[51] A court should be especially wary of challenges to administrative regulations which are presently the subject of active agency review. Specifically, on May 31, 1984, the Cabinet Council on Commerce and Trade, through the Departments of Treasury and Commerce, solicited public comment on the issue of parallel imports with a view toward formulating a comprehensive policy on the issue.[52] President Reagan characterized this as an effort to "formulat[e] a cohesive policy in this area." [53] After reviewing data submitted in 1984, the President's Economic Policy Council has recently solicited additional information to perform a cost-benefit analysis of specific regulatory options on parallel imports.[54]

[50] Likewise, when the President disapproved the International Trade Commission determination in *Certain Alkaline Batteries*, ITC Inv. No. 337-TA-168 (Nov. 5, 1984), he did so because it was "at odds with the longstanding regulatory interpretation [of Section 526 of the Tariff Act and Section 42 of the Lanham Act] by the Department of the Treasury." 50 Fed. Reg. 1,655 (Jan. 11, 1985). Thus, of the executive, legislative, judicial and administrative bodies which have considered the question, only the District of Columbia Circuit has failed to find the Customs Service regulation of parallel imports both consistent and of long-standing existence.

[51] The court of appeals disregarded the precept that courts should not precipitously reverse an agency regulation on which private parties have substantially relied. *Zenith Radio Corp. v. United States*, 437 U.S. 443, 457-458 (1978).

[52] 49 Fed. Reg. 21,3453 (May 21, 1984); 49 Fed. Reg. 29,509 (July 20, 1984).

[53] 50 Fed. Reg. 1,655 (Jan. 11, 1985).

[54] 51 Fed. Reg. 22,005 (June 17, 1986); 51 Fed. Reg. 30,024 (Aug. 21, 1986).



COPIAT is participating in this administrative proceeding—as are K mart and 47th Street Photo—which may or may not result in changes to 19 C.F.R. § 133.21.

### B. *The Customs Service Regulation Comports With The Lanham Act.*

The Customs Service generally cites both Section 526 of the Tariff Act and Section 42 of the Lanham Act as statutory authority for its parallel imports regulation.[55] And courts have historically permitted parallel imports based on both the Tariff Act and the Lanham Act.[56] The Customs Service regulation must be consistent with Section 42 of the Lanham Act because no reported decision has ever held that Section 42 of the Lanham Act bars the importation of genuine trademarked merchandise manufactured by a trademark owner or its licensee.[57] In particular, neither *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923), nor *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923), provides precedent for preclusion of genuine trademarked goods made by an American trademark owner's foreign affiliate.

The holding of *A. Bourjois & Co. v. Katzel* is limited to its facts, *i.e.*, to the case where an unrelated independent foreign manufacturer uses a United States trademark owner's trademark (without the owner's consent) to identify goods that are shipped into the United States. Clearly, the "copying or simulating" requirement of the Lanham Act was met in *Katzel* because the foreign manufacturer had no authority from the independent American trademark owner to use the trademark in question

[55] *See, e.g.*, 19 C.F.R. § 11.14 (1946) (J.A. 45-46); 19 C.F.R. § 11.14 (1969) (J.A. 67). Even before the Lanham Act was passed, the Customs Service regulation was expressly based on both tariff law and trademark law *See, e.g.*, Article 517, Customs Regulations of 1931 (J.A. 21-22).

[56] See cases cited in note 1 above.

[57] See cases cited in note 1 above.

on goods that were to be shipped into the United States. Indeed, the foreign manufacturer in *Katzel* was well aware of the fact, since it had sold full American trademark rights to the petitioner.[58]

The facts in *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923), were stipulated to be exactly the same as in *Katzel* (except that a different face powder was involved). Neither case dealt with corporate affiliates operating worldwide under an express consent to use the trademark as is the case with Cartier, Charles of the Ritz, Seiko and other COPIAT members. Indeed, The Supreme Court wrote no opinion in *Aldridge*, simply answering the two questions certified by the court of appeals on the authority of the *Katzel* case, which had nothing to do with foreign affiliates. *See* 292 F. 1013, 1014.

Moreover, many courts have recently held that a showing of confusion of source is a prerequisite to relief under the Lanham Act and there can be no confusion of source as to parallel distribution imports, which are, by definition, manufactured and trademarked with the authorization of the trademark holder.[59] When the American and foreign trademark owner are members of the same multinational corporate family, there can be no "American goodwill" separate from the global goodwill which the foreign parent company has generated.

Not only is the Customs Service regulation legally consistent with the Lanham Act, it is a logical expression of trademark law. Does a consumer purchase a SONY radio

[58] As Mr. Justice Holmes said, "After the sale the French manufacturers could not have come to the United States and have used their old marks in competition with the plaintiff." 260 U.S. at 691. The court of appeals, consistent with its approach to legislative history, would presumably reject Justice Holmes' statement as misinformed, since the French manufacturer of JAVA face powder was not directly involved in the *Katzel* litigation.

[59] See cases cited in note 1 above.



because it is distributed in the United States by Sony Corporation of America; or does the consumer purchase that radio because it is designed, manufactured and sold worldwide by Sony Corporation, the parent company in Japan? It makes no sense, legally or logically, to distinguish between the foreign parent company and its wholly owned domestic subsidiary.[60] *See In re Wella A.G.*, 787 F.2d 1549, 1552-1553 (Fed. Cir. 1986).

The Customs Service regulation on parallel imports simply represents a common sense approach to both trademark and tariff law.

### C. *The Customs Service Regulation Comports With Public Policy.*

Incredibly, the court of appeals posited that the Customs Service lacked "authority to infuse antitrust concerns into Section 526." 790 F.2d at 917 (K mart Pet. p. 29a).

The court of appeals scorn for the public interest is difficult to understand:

> The intervenors argue with great vigor that Section 526, as we interpret it, would deprive American consumers of the benefit of imports at prices lower than those maintained by foreign producers through exclusive distribution by their American subsidiaries. That may well be so. They further contend that other nations, particularly our trading partners and competitors, do not permit American producers to maintain prices in their countries in this fashion, and that Section 526 in today's international market

[60] COPIAT members want to have it both ways. When antitrust issues are raised, they claim that a foreign parent and its domestic subsidiary are a single entity which cannot conspire with itself to fix prices or allocate markets, relying on *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984). On the other hand, when a consumer seeks warranty service on a parallel import, the wholly owned domestic subsidiary pleads complete independence from its foreign parent; and when the domestic trademark owner seeks trademark relief from parallel imports, it claims to have goodwill separate from that of its foreign parent.

constitutes a sort of economic unilateral disarmament. That may also be so. Moreover, it is certainly true that economic and trading conditions have changed a good deal since 1922, and it may now be possible for foreign producers with an exclusive distributorship in the United States to maintain artificially high prices on desirable imports in a manner quite unforeseen sixty years ago. All of these arguments are properly addressed to Congress; it is not open to the Customs Service, still less the Judiciary, to modify the law to take into account these considerations.

790 F.2d at 917 (K mart Pet. pp. 30a-31a). It would seem that a court should not strain, as the court of appeals did, to construe a statute in a way so contrary to the antitrust laws and public interest. When Congress delegated to the Customs Service the interpretation and execution of Section 526, it certainly did not expect the agency to ignore the public interest or to read the statute in a vacuum.

The court of appeals approach is at odds with the rule that an agency must take the antitrust law into account when assessing the public interest. *Gulf States Utilities Co. v. FPC*, 411 U.S. 747, 761-762 (1973); *Denver & Rio Grande Western Railroad Co. v. United States*, 387 U.S. 485 (1967). Moreover, antitrust considerations are inherent in evaluating the proper scope of the trade rights granted by a trademark. *United States v. Sealy, Inc.*, 388 U.S. 350 (1967); *United States v. Bausch & Lomb Optical Co.*, 321 U.S. 707 (1944). Finally, antitrust exemptions of the sort COPIAT seeks are highly disfavored:

> Implied antitrust immunity is not favored, and can be justified only by a convincing showing of clear repugnancy between the antitrust laws and the regulatory system.

*United States v. National Ass'n of Securities Dealers, Inc.*, 422 U.S. 694, 719-720 (1975). *See also FMC v. Seatrain Lines, Inc.*, 411 U.S. 726, 733 (1973); *United States v. Philadelphia National Bank*, 374 U.S. 321, 348 (1963).[61]



The Department of Justice made this clear during the rulemaking proceeding which preceded the 1972 promulgation of the present regulatory text:

> If applied literally, Section 526 arguably would prohibit imports of genuine goods identical to the goods sold under the U.S. trademark. Thus, for example, an American component of a multinational enterprise could insulate itself from competition from third parties who had purchased the identical article from the foreign affiliate of the American firm. Such a rule would not protect the consumer from deception, since the goods would be of identical quality. Its only effect would be to raise prices by eliminating competition.
>
> * * * *
>
> Since Section 526 contains no explicit language indicating that such a broad exemption to the antitrust laws is intended and since repeal of the antitrust laws by implication is not favored, an interpretation of Section 526 which prevents an unnecessary elimination of competition is not only permissible but required.

Letter from Walker B. Comegys, Acting Assistant Attorney General, Antitrust Division, Department of Justice, to Myles J. Ambrose, Commissioner of Customs (Apr. 19, 1971) (J.A. 71-72).

Historically, the Court has been quick to strike down arrangements where a trademark has been used to divide territories, whether national or international. *United*

[61] This line of authority has not been affected by *Continental T.V. Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977). While that case did analyze certain vertical restraints under the Rule of Reason, vertical restraints affecting price remain *per se* illegal. *See Monsanto Co. v. Spray-Rite Service Corp.*, 465 U.S. 752 (1984), *aff'g* 684 F.2d 1226 (7th Cir. 1982).

*States v. Sealy, Inc.*, 388 U.S. 350 (1967); *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1951), *modifying and aff'g* 83 F.Supp. 284 (N.D. Ohio 1949). Group boycotts to enforce price fixing are *per se* illegal regardless of the euphemistic label which the participants have concocted.[62] *Klor's, Inc. v. Broadway Hale Stores, Inc.*, 359 U.S. 207, 212 (1959). Any joint arrangement designed to prevent discounters from obtaining merchandise is *per se* illegal. *United States v. General Motors Corp.*, 384 U.S. 127 (1966). Moreover, the trademark laws do not allow a trademark owner to control the resale prices of goods it has sold. *Susser v. Carvel Corp.*, 332 F.2d 505 (2d Cir. 1964), *cert. dismissed*, 381 U.S. 125 (1965); *Sunbeam Corp. v. Wentling*, 192 F.2d 7, 9 (3d Cir. 1951).

Even if the fanciful court of appeals reading of the antitrust law were correct, it does not follow that the Customs Service should devote its enforcement resources to the policing of multinational market divisions effected through the trademark licensing agreements of foreign manufacturers, when the only demonstrable effect of such enforcement would be to raise dramatically the retail prices paid by American consumers. While certain vertical restraints may be legal under the antitrust laws or are challenged by private treble damage actions rather than government prosecution, a federal agency should not be forced by judicial fiat to enforce vertical price-

[62] Whether or not a single manufacturer may legally impose trademark license restrictions, COPIAT is not a single manufacturer. It claims to be a combination of over 1,200 companies—including hundreds of *competing* manufacturers of cameras, watches, jewelry, cosmetics and fragrances, and consumer electronics. Whether or not their legislative and judicial efforts may be subject to a limited antitrust exemption, if they have jointly and concertedly refused to honor international warranties, jointly and concertedly refused to deal with discounters or jointly and concertedly adopted territorial restraints, substantial antitrust questions are raised.



fixing restrictions between a manufacturer and its distributor, whether these restraints would be considered per se illegal or analyzed under the Rule of Reason. Only if the view of the court below prevails will state and federal agencies enforce a statute so as to prevent discount retailers from obtaining genuine brand name merchandise.

The court of appeals interpretation of Section 526, however, would provide foreign manufacturers with means for market control which are simply unavailable to their American competitors. The Second Circuit recognized this in *Olympus*:

> Absent this bright line for administrative enforcement, the Customs Service would expend resources excluding goods when later private litigation could disclose that the markholder lacked isolable domestic good will and was merely engaging in price discrimination or other behavior questionable as a matter of antitrust law.

792 F.2d at 320.

Moreover, the European Community and Japan have rejected the COPIAT position as contrary to public policy.[63]

The Court of Justice of the European Communities recently ruled that a Swiss watch manufacturer could not refuse warranty service on watches sold by independent distributors. The court held that such a policy constituted a discriminatory restriction on competition which violated Article 85(1) of the Treaty of Rome. Citing its *Lancome*, *Hasselblad* and *L'Oreal* decisions, the court said:

> A guarantee system under which the supplier of goods provides a guarantee only to the customers of

[63] Thus, as previously noted, American products can be parallel imported, without restriction, in Europe and Japan.

[its] exclusive distributor places that distributor and retailers to which it sell at an advantage in relation to parallel importers and distributors and must therefore be considered to have the object or effect of restricting competition.[64]

The European Community Commission also recently reaffirmed its policy of permitting parallel imports throughout Europe.[65] The Commission warned manufacturers that they face prosecution if they fail to honor after-sale service guarantees on products sold through parallel channels. The Commission concluded that the practice of some manufacturers in limiting guarantees to the manufacturer's distribution outlets violates the Community's competition law under Article 85 of the Treaty of Rome.

Japanese regulations under the Customs Duties Act permit importation of genuine trademarked goods in circumstances equivalent to the Customs Service regulation.[66] The Japanese Fair Trade Commission has declared it to be an unfair business practice to hinder parallel importation.[67] And Japan's courts have rejected an attempt by the French owner of the Lacoste trademark and its Japanese licensee to prevent the sale in Japan of Lacoste shirts manufactured for Lacoste's American trademark licensee.[68]

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[64] *E.T.A. Fabriques d'Ebauches v. DK Investment*, No. 31/81 European Court of Justice, Dec. 10, 1985, *reported in* 50 Antitrust & Trade Reg. Rep. (BNA) 262, 263 (1986).

[65] 51 Antitrust & Trade Reg. Rep. (BNA) 765 (1986).

[66] *The Procedures for Application of Import Prohibitions of Goods Infringing Intellectual Property Rights, Finc. Ref. No. 1443 of 1972.* See Takamatsu, Parallel Importation of Trademarked Goods: A Comparative Analysis, 57 Wash. L. Rev. 433, 442-443 (1982).

[67] Takamatsu, Parallel Importation of Trademarked Goods: A Comparative Analysis, 57 Wash. L. Rev. 433, 443 (1982).

[68] *Le Chemise Lacoste v. Shinshinboeki*, 48 Antitrust & Trade Reg. Rep. (BNA) 225 (1985).



In short, America's trading partners do not exclude parallel imports and do not allow manufacturers and their affiliated distributors to disown or refuse to honor product warranties on parallel imports.

This has also been recognized by American courts which have refused the pleas of COPIAT and its members to exclude parallel imports under the tariff and trademark laws. As Judge Aronowitz said in *Parfums Stern, Inc. v. United States*, 575 F.Supp. 416, 421 (S.D. Fla. 1983), "the Court would be doing the public a disservice by preventing the dissemination of . . . equally good, yet less expensive . . . products" if it does not reverse the decision below.

**CONCLUSION**

The judgment of the court of appeals should be reversed.

Respectfully submitted,

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February 21, 1987

# RESPONDENT'S

# BRIEF

(26)

No. 86-624

# In the Supreme Court of the United States

OCTOBER TERM, 1986

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47TH STREET PHOTO, INC., PETITIONER

*v.*

COALITION TO PRESERVE THE INTEGRITY
OF AMERICAN TRADEMARKS, ET AL.

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*ON WRIT OF CERTIORARI TO
THE UNITED STATES COURT OF APPEALS FOR
THE DISTRICT OF COLUMBIA CIRCUIT*

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**MEMORANDUM FOR THE FEDERAL RESPONDENTS**

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**MEMORANDUM FOR THE FEDERAL RESPONDENTS**

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The federal respondents in No. 86-624 submit this memorandum to set forth the government's position on the jurisdictional issue raised in 47th Street Photo, Inc.'s brief.[1]

47th Street Photo contends that the Customs Courts Act of 1980, 28 U.S.C. 1581, vests the Court of International Trade with exclusive jurisdiction over the present challenge to the Customs Service regulation, 19 C.F.R. 133.21, which implements Section 526 of the Hawley-Smoot Tariff Act of 1930, 19 U.S.C. 1526. We disagree. The district court properly exercised jurisdiction under 28 U.S.C. 1331, empowering the district courts to hear "civil actions arising under the

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[1]We discuss the issue of the validity of the Customs Service regulation—an issue that is presented in this case as well as two companion cases, Nos. 86-495 and 86-625—in our brief for the federal petitioners. See 86-625 Fed. Pet. Br.

Constitution, laws or treaties of the United States," and under 28 U.S.C. 1338(a), empowering the district courts to hear civil actions "arising under any Act of Congress relating to * * * trademarks." The Customs Courts Act did not divest the district court of jurisdiction under those provisions in the present case.

1. 47th Street Photo contends, first, that the present action falls within the exclusive jurisdiction of the Court of International Trade because it arises out of a law of the United States providing for "embargoes or other quantitative restrictions on the importation of merchandise for reasons other than the protection of the public health or safety" (28 U.S.C. 1581(i)(3)). It is true that Section 526, which restricts the importation of foreign merchandise bearing a mark identical to a U.S. trademark, could be literally construed as an "embargo" in the sense that it results in a "prohibition imposed by law upon commerce" (47th Street Photo Br. 11 n.3, quoting *Webster's New International Dictionary* (3d ed. 1971)). We agree with the court of appeals, however, that the term is better understood as limited to traditional prohibitions on imports "arising out of trade policy, the sort of measures that have traditionally limited the importation of shoes, textiles, automobiles, and the like" (86-625 Pet. App. 8a).

2. 47th Street Photo also contends that the Court of International Trade has exclusive jurisdiction over a determination of the Customs Service regulation's validity " 'as a corollary to protest jurisdiction under 28 U.S.C. § 1581(a)' " (47th St. Photo Br. 17, quoting *Vivitar Corp.* v. *United States*, 761 F.2d 1552, 1560 (Fed. Cir. 1985), cert. denied, No. 85-411 (Jan. 13, 1986)).[2] Section 1581(a) confers exclusive jurisdiction on the Court of International Trade over "any civil action commenced to contest the denial of a protest, in whole or in part, under section 515 of the Tariff Act of 1930" (28 U.S.C. 1581(a)). And Section 1581(i)(4) further confers jurisdiction over any action against the United States that arises out of a law "providing for * * * administration and enforcement with respect to matters referred to in" 28 U.S.C. 1581(a). 28 U.S.C. 1581(i)(4).

[2]Protests are adminstrative complaints challenging certain Customs Service actions, including "the exclusion of merchandise from entry or delivery * * * under any provision of the Customs laws" (19 U.S.C. 1514(a)(4)). See also 19 U.S.C. 1515.



We agree with the court of appeals (86-625 Pet. App. 6a-7a) that 28 U.S.C. 1581(a) deals strictly with judicial review of a limited class of statutorily defined protests. It does not grant the Court of International Trade exclusive jurisdiction over a civil action, as here, that contests the admission of imported goods. And the civil action here does not fall within 28 U.S.C. 1581(i)(4). That subsection provides jurisdiction over cases challenging the procedures governing protests; it does not provide exclusive jurisdiction over any challenge to a statute and regulation that, in other circumstances, might provide the basis for a protest. See 86-625 Pet. App. 7a.

Thus, we submit that the district court had jurisdiction under 28 U.S.C. 1331 and 1338(a) over the present dispute and that the Customs Courts Act did not divest the court of that jurisdiction.

Respectfully submitted.

CHARLES FRIED
*Solicitor General*

MAY 1987

# RESPONDENT'S

# BRIEF

17 17 16

Nos. 86-495, 86-624 and 86-625

IN THE

# Supreme Court of the United States

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UNITED STATES OF AMERICA, *et al.*, K MART CORPORATION and 47TH STREET PHOTO,
*Petitioners*,

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, CARTIER, INC., and CHARLES OF THE RITZ GROUP, LTD.,
*Respondents*.

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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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## BRIEF FOR RESPONDENTS

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81 pp

## QUESTIONS PRESENTED

1. Section 526 of the Tariff Act of 1930 makes unlawful, without relevant exception or qualification, the importation of goods of foreign manufacture bearing a trademark identical to a United States trademark owned by a corporation created within the United States and properly registered in the Patent and Trademark Office, in the absence of the trademark owner's consent to the importation. The question on the merits is whether regulations of the Customs Service that make the lawfulness of the importation of such goods turn on the relationship of the United States corporation to the owner of the identical mark affixed abroad are valid under Section 526.

2. The jurisdictional question is whether a United States district court, whose jurisdiction of trademark cases rests on 28 U.S.C. §§ 1331 and 1338(a) and 15 U.S.C. § 1121, has jurisdiction of an action arising under Section 526 of the Tariff Act of 1930, which forbids the importation of goods bearing certain trademarks without the trademark owner's consent, or whether exclusive jurisdiction lies in the Court of International Trade under 28 U.S.C. § 1581.

## PARTIES TO THE PROCEEDING

The petitioners are the United States of America, James A. Baker, III, Secretary of the Treasury, and William von Raab, Commissioner of Customs (No. 86-625); K mart Corporation (No. 86-495); and 47th Street Photo, Inc. (No. 86-624). The respondents are the Coalition to Preserve the Integrity of American Trademarks, Cartier, Inc., and Charles of the Ritz Group, Ltd.[1]

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[1] The respondent Cartier, Inc., is a wholly owned subsidiary of Cartier International, Inc., which is a wholly owned subsidiary of Cartier International B.V., a Dutch corporation. Cartier, Inc., does not have any non-wholly owned subsidiaries or any affiliates, except foreign affiliates. Since the filing of Respondents' Brief on Certiorari, respondent Charles of the Ritz Group, Ltd., has been sold by its former parent, Squibb Corporation, to its current parent, Yves Saint Laurent International, S.A., a French corporation. Charles of the Ritz Group, Ltd., does not have any subsidiaries or affiliates, except foreign affiliates, that are not wholly owned by it or by Yves Saint Laurent International, S.A. A list of members of the respondent Coalition to Preserve the Integrity of American Trademarks is contained in the Addendum to this brief, pp. 10a-11a, *infra*.

## TABLE OF CONTENTS

TABLE OF CONTENTS—Continued





TABLE OF CONTENTS—Continued

## TABLE OF AUTHORITIES

*Cases:* Page





## TABLE OF AUTHORITIES—Continued

Page

TABLE OF AUTHORITIES—Continued





TABLE OF AUTHORITIES—Continued

TABLE OF AUTHORITIES—Continued



IN THE

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UNITED STATES OF AMERICA, *et al.*, K MART CORPORATION and 47TH STREET PHOTO,
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## BRIEF FOR RESPONDENTS

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## OPINIONS BELOW

The opinion of the court of appeals (Gov't Pet. 1a-32a) is reported at 790 F.2d 903. The opinion of the district court (*id.* at 34a-50a) is reported at 598 F. Supp. 844.

## JURISDICTION

The judgment of the court of appeals was entered on May 6, 1986. (Gov't Pet. 51a.) Petitions for rehearing were denied on July 18, 1986. (*Id.* at 53a.) The petition for a writ of certiorari in No. 86-495 was filed on September 26, 1986, and the petitions in Nos. 86-624 and 86-625 were filed on October 16, 1986. The writs were granted on December 8, 1986. 107 S. Ct. 642; J.A. 86-88. The jurisdiction of this Court rests on 28 U.S.C. § 1254(1).

## STATUTES AND REGULATIONS INVOLVED

The relevant statutes and regulations are Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, 28 U.S.C. §§ 1331, 1338(a) and 1581, Section 39 of the Lanham Trademark Act of 1946, 15 U.S.C. § 1121, and 19 C.F.R. § 133.21. They are reproduced in the Addendum to this brief.

## STATEMENT

Section 526(a) of the Tariff Act of 1930 prohibits the importation into the United States of "any merchandise of foreign manufacture" if that merchandise "bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States" and recorded with the Customs Service, unless the written consent of the United States trademark owner is given to the importation. 19 U.S.C. § 1526(a). (Pp. 1a-3a, *infra.*) The Customs Service adopted regulations in 1972 that drastically pare down the apparent coverage of this statute by making it inapplicable when a United States corporation itself affixes the trademark to the foreign merchandise, is related as parent or subsidiary to the affixing corporation or is otherwise under common ownership or control with it, or has authorized the affixing. 19 C.F.R. § 133.21(c). (Pp. 4a-5a, *infra.*) Thus, goods manufactured for markets other than the United States but that bear a trademark identical to the United States trademark may be imported into the United States by unrelated third parties, without the United States trademark owner's consent, when one of the corporate or transactional relationships described in the regulations exists.

These Customs Service regulations purportedly interpreting Section 526 have fostered the phenomenon known as the gray market or parallel importation or diversion of goods.[1] The terms describe the purchase abroad of

[1] None of the descriptive terms is wholly satisfactory. "Gray market" is obviously pejorative; "diversion of goods" is only some-



trademarked goods manufactured for sale in markets other than the United States and their importation into the United States without the consent of the United States trademark owner. The gray market bloomed in the early 1980s.[2] Its growth prompted efforts by United States trademark owners to stop the diversion of their goods. Efforts to stop diversion short of this country's borders are often ineffectual because of the practical or legal difficulty or impossibility of preventing sales in foreign countries to third-party diverters.[3] The trademark owners therefore turned to litigation to bring about the enforcement of Section 526 according to its terms. (*See* pp. 8-9, *infra.*)

### The Gray Market

The gray market is associated with products that enjoy a high degree of trademark recognition. The list of such products is a long one: soft drinks, soaps and detergents, baby products, film, outboard motors, musical instruments, heavy equipment, toys, games, and clothing, in

what less so. "Parallel importation," the phrase favored on the other side of the issue, incorrectly implies both that the goods manufactured for the United States market are always imported and that the "parallel" or "gray-market" products are necessarily identical to them. Neither proposition is true.

[2] Statements made under penalty of perjury in support of the motion of these respondents for summary judgment (J.A. 2, No. 8) are in the district court record and the record on appeal (though not reproduced in the joint appendix in the court of appeals). For the recent flourishing of the gray market, *see* Statements of Robert H. Miller ¶¶ 7-9, Aaron Altman ¶ 8.

[3] For example, French law generally prohibits a supplier's refusal to deal, Price Ordinance No. 45-1483 of June 30, 1945, Art. 37(1)(a), *reprinted in* Plaisant (France) B3, *World Law of Competition*, Pt. 4, Annex 2 at FRAGA 2-2 (J. von Kalinowski ed. 1986), and the complexity of exemptions for limited types of distributorships poses effective practical barriers to private control of trademarked goods. *See also* Statement (n.2, *supra*) of Robert H. Miller ¶¶ 17-20 (describing efforts of Charles of the Ritz to prevent diversion).

addition to cameras, binoculars, watches, perfumes and cosmetics, chinaware, and electronic goods.

Despite the unpleasant xenophobia that marks some of the opposing briefs,[4] the United States trademark owners subjected to the inroads of the gray market are American companies, incorporated and domiciled in the United States. In some cases, to be sure, such as that of the named plaintiff Cartier, Inc., the American owner of the United States trademark is a partially or wholly owned subsidiary of a foreign company that owns the identical mark abroad. In many other cases, such as those of the United States automobile manufacturers, Duracell, Procter & Gamble, and Eastman Kodak, the owner of the United States trademark is a United States producer. It either has plants abroad itself or has a foreign subsidiary that manufactures and distributes goods abroad with the same mark, or it authorizes the use of its trademark abroad by an unrelated company. In some cases the foreign plants produce exclusively for foreign markets.

To this point, this statement of background facts would not be disputed. The parties, however, differ on the explanation of and consequences of the gray market. The private petitioners believe that the gray market is a function of foreign manufacturers' discriminating against the United States market in the prices they charge for their goods, and the Government does not disagree. They believe that the intrabrand competition that the gray market produces is a price-reduction boon to American consumers. These respondents believe, on the other hand, that gray market imports are almost always a function of free riding on their marketing and product-service expenditures or of the sale of goods of different quality from those manufactured in or for the United States. They believe that the claims even of immediate price

[4] *E.g.*, 47th St. Photo Br. 2, 27; K mart Br. 7, 23-24; Progress Trading Co. Br. 2, 8; National Ass'n of Catalog Showroom Merchandisers Br. 4, 6.



benefits to consumers are overblown. They believe, furthermore, that the long-term result of free riding and the sale of goods that differ from those with which the United States trademark is associated will be to depreciate the value of the trademark owner's investment in the goodwill that his trademark represents. The incentive to make the investment will decrease. Thus, the effect of the intrabrand competition that the gray market produces will be a deterioration of interbrand competition. As this Court has increasingly recognized (p. 39, *infra*), interbrand competition is promoted by vertical marketing arrangements such as are at issue here and is a generator of both price and product-quality benefits for the consumer.

This Court is not asked to decide the empirical and policy questions that divide the two sides in this case. But it should know that the simplistic "lower-prices-for-American-consumers" theme of the opposing briefs is by no means the only way to view the gray market. Congress, if taken at its stated word in Section 526, made a rational decision, not the perverse decision that petitioners suggest, when it enacted an unqualified prohibition of the importation, without the trademark owner's consent, of foreign-made merchandise bearing a United States trademark.[5]

**The Economics of the Gray Market**

The gray market depends on taking advantage of the promotional, marketing, product-service and other expenditures by which the United States trademark owner tries to enhance the value of its trademark and to

[5] Sources for the following brief discussion of the economics and consequences of the gray market include the sworn statements described in note 2 above and comments prepared by Lexecon Inc. and submitted on behalf of the respondent Coalition to Preserve the Integrity of American Trademarks in the rulemaking referred to in the Government's brief (p. 44 n.54), in which were also submitted the comments of the Federal Trade Commission on which the Government relies (Br. 4-5, 34 n.41).

promote the sale of its trademarked goods. Such expenditures—on design, advertising, product-launch campaigns, trade show exhibits, training programs, and product service—are heavy for the kinds of products in which there is a gray market.[6] The cost of those activities must be borne by goods distributed through the trademark owner's authorized channels and therefore must be reflected in retail prices paid by consumers for such goods. Gray-market goods are free of that burden.

Gray-market transactions are profitable and are therefore engaged in when the unit cost of transporting trademarked goods to a country is less than the unit cost of the promotional and service activities associated with distribution of the product in that country. The gray market exists whenever and wherever the relationship of transportation costs to promotional, marketing, and product-service costs favors the free rider. It is not unique to the United States.[7]

The private petitioners argue that Japan and the European trading partners of the United States allow gray-market importations. (47th St. Photo Br. 40-42; K mart Br. 43-44.) The argument is irrelevant to whether the Customs Service regulations correctly interpret Section 526. But the petitioners' supporting citations on their face disprove their claim that the gray market derives from price discrimination against the United States. The cases that the petitioners cite, from tribunals of Japan, Switzerland, Austria, the United Kingdom, Germany, the Netherlands, and Sweden, ruling on whether gray-market imports should be forbidden or allowed, are flatly inconsistent with the notion that there

[6] Statements (n.2, *supra*) of Robert H. Miller ¶ 13, Aaron Altman ¶ 9, Jack M. Abrams ¶¶ 12-18.

[7] *See* Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 Wash. L. Rev. 433 (1982) (noting numerous examples of gray markets in other countries, including Europe and the Far East).



is systematic price discrimination against the United States.[8]

Petitioners make the vague claim that "foreign manufacturers" or "foreign companies" try to sell their products at "higher prices" or "much higher prices" in the United States. (Gov't Br. 4, K mart Br. 6, 47th St. Photo Br. 2.) Petitioners presumably refer to retail prices, but it is not even true that retail prices of goods marketed all over the world are generally higher in the United States. More important, to the extent that retail prices are higher in the United States such prices are not evidence of price discrimination. Higher United States retail prices are just as plausibly, and more rationally, explained by higher costs of distribution, including marketing and product-service.

To discriminate in price against the United States at the relevant point, the initial level of distribution, requires a seller with substantial market power. If a seller lacking market power tried it, his competitors would move quickly to enlarge their shares of the immense and affluent United States market at his expense by underselling him. Most goods in which there is a gray market in the United States are goods in which interbrand competition is so fierce that true price discrimination is inconceivable: cameras, perfumes, and watches are only typical examples.[9]

**Differing Qualities of Gray-Market Goods**

Gray-market goods, though genuine, are not always identical to the goods manufactured for the United States market. Gray-market health-care, personal-care, and cleaning products and soft drinks and alcoholic beverages

[8] Indeed, the case of Japan and the LaCoste shirts cited by both petitioners (K mart Br. 44; 47th St. Photo Br. 50) indicates price discrimination *in favor of* the United States and against Japan.

[9] Opium brand perfume, the second ranking perfume in the United States market, has a 4% market share. *Hearings on Gray Market Imports Before the International Trade Subcomm. of the Senate Finance Comm.*, 99th Cong., 2d Sess. 29 (1986).

sometimes contain ingredients different from the ingredients of products legitimately sold under United States trademarks; gray-market watches, mechanical equipment and vehicles may lack United States safety features; gray-market electronic products or cameras may be obsolete models; gray-market television receivers may be set for non-United States frequencies; and many gray-market products are sold with instruction manuals in foreign languages. Further, many gray-market products do not carry the United States warranty of service and maintenance that consumers have come to associate with a particular United States trademark.[10]

Trademark owners thus suffer erosion of their goodwill both because of the gray market's free ride on the marketing expenditures that produce the goodwill and because of customer dissatisfaction with gray-market goods sold under their trademarks.

**Proceedings Below**

This suit was brought in the district court in early 1984 by the Coalition to Preserve the Integrity of American Trademarks and two of its members, Cartier, Inc., and Charles of the Ritz Group, Ltd. Both the individual plaintiffs and many similarly situated COPIAT members (*see* pp. 10a-11a, *infra*) have been denied the protection of Section 526 for their trademarked goods because of the 1972 Customs Service regulations. They sued for a declaration that the regulations are inconsistent with Section 526 (and with Section 42 of the Lanham Trademark Act) and for injunctive relief.

The district court (Johnson, J.) denied the requested relief because it found the regulations consistent with the statutes. (Gov't Pet. 34a-48a.) The court of appeals, in a unanimous opinion written by Judge Silberman and joined by Judges Mikva and Bork, reversed. It held that the regulations "simply cannot be squared with Section 526 and are thus invalid." (Gov't Pet. 9a.) The court, referring to the framework for decision on review of

[10] Statements (n.2, *supra*) of Aaron Altman ¶¶ 5-7, Jack W. Abrams ¶ 6.



agency action established by this Court in *Chevron U.S.A. Inc.* v. *Natural Resources Defense Council*, 467 U.S. 837, 842-44 (1984), found that "Congress' intent in Section 526 is clear, and thus 'that is the end of the matter.'" (Gov't Pet. 11a.) Alternatively, it held the regulations invalid "because they do not constitute a reasonable interpretation of Section 526." (*Id.*) The court found a clear congressional intent on the face of the statute, which was confirmed by the history of its enactment and reenactment and by contemporaneous agency interpretation and was not undermined by subsequent "vacillating" agency action or by any subsequent congressional action. The court directed the entry of the requested declaratory judgment but withheld injunctive relief. (*Id.* at 32a.) It did not reach the question under Section 42.

Two other federal circuits have considered the validity of the Customs Service's regulations. Neither has upheld the regulations as a correct interpretation of Section 526. In *Vivitar Corp.* v. *United States*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 106 S. Ct. 791 (1986), the court determined that the regulations did not correctly interpret the statute but sustained them as enforcement guidelines for the Customs Service. The court below rejected this result because "the Customs Service has never purported to justify these regulations as an exercise of enforcement discretion." (Gov't Pet. 31a.) Nevertheless, the Second Circuit, in *Olympus Corp.* v. *United States*, 792 F.2d 315, 320 (2d Cir. 1986), *petition for cert. filed*, No. 86-757 (Nov. 6, 1986), later followed the Federal Circuit in sustaining the regulations only as an exercise of the agency's enforcement discretion. Both the Federal Circuit and the Second Circuit took the view that private remedies afforded by Section 526 against gray-market dealers are available to trademark owners, regardless of corporate affiliation.[11]

[11] Section 526(c) of the Tariff Act of 1930, 19 U.S.C. § 1526(c) (pp. 1a-2a, *infra*), provides for private remedies against "[a]ny person dealing in" merchandise whose importation is forbidden by Section 526(a).

The Federal Circuit in the *Vivitar* case held that the Court of International Trade had exclusive jurisdiction of that case (which was like this one in respect of the jurisdictional issue) under 28 U.S.C. § 1581. The court below (Gov't Pet. 4a-8a) and the Second Circuit disagreed, finding jurisdiction in their respective district courts under 28 U.S.C. §§ 1331 and 1338(a) and Section 39 of the Lanham Act, 15 U.S.C. § 1121.

## SUMMARY OF ARGUMENT

1. This case lies within the traditional trademark jurisdiction of the district court under 28 U.S.C. §§ 1331 and 1338(a) and Section 39 of the Lanham Act. That jurisdiction is not affected, as to this kind of case, by the grant in 28 U.S.C. § 1581 of specialized jurisdiction to the Court of International Trade of certain carefully specified kinds of cases arising under the trade and customs laws. Specifically, Section 526 is not a law providing for an "embargo[] or other quantitative restriction[] on the importation of merchandise" within the meaning of 28 U.S.C. § 1581(i)(3). Nor is it, within the meaning of 28 U.S.C. § 1581(i)(4), a law "providing for . . . administration and enforcement with respect to" matters described elsewhere in Section 1581, including particularly contests of protest denials described in Section 1581(a).

2. Section 526(a) is an uncommonly unambiguous statutory enactment. On its face it protects any United States citizen, individual or corporate, who owns a registered United States trademark against the unconsented-to importation of any goods bearing that same trademark. Given its natural meaning, Section 526(a) condemns the Customs Service regulations purporting to interpret it as hopelessly inconsistent with it and therefore invalid. The regulations make the protection of the statute turn on relationships between trademark owners and deprive it of most of its intended effect. As petitioner 47th Street Photo's unsuccessful effort at textual



analysis shows, the terms of Section 526(a) cannot be made to yield a meaning consistent with the regulations.

3. If the secondary sources that petitioners necessarily rely on are consulted, they disclose no such "clearly expressed legislative intention" as this Court has demanded to persuade it to depart from the terms of a statute. *United States* v. *James*, 106 S. Ct. 3116, 3122 (1986). To the contrary, the breadth of the terms of Section 526 is confirmed by its source in dissatisfaction with the Second Circuit's "universality" doctrine of trademark law, by the 1922 Conference Committee's broad description of its effect and purpose, and even by the 1922 debate on the Senate floor, on which petitioners place their heaviest reliance. That Section 526 broadly wrote the "territoriality" doctrine of trademark protection into law when first enacted in 1922 is confirmed by the understanding manifested by Senators and the entire Congress in rejecting an important amendment to it and reenacting it in 1930.

4. The contemporaneous administrative interpretations of Section 526, in 1923 and 1931, gave no hint of the limitations that were to be ascribed to it by the 1972 Customs Service regulations. After those contemporaneous interpretations, all is confusion. The agency position has been vacillating and unexplained. The present view expressed in the 1972 regulations, which has itself at least once been contradicted, seemingly rests on legislative history and antitrust doctrine (outmoded at that), which are not matters of Customs expertise but are matters within the competence of the judiciary. The agency view is inconsistent with the clearly expressed intent of Congress, found in the statutory words and confirmed by the use of "traditional tools of statutory construction," *INS* v. *Cardoza-Fonseca*, 107 S. Ct. 1207, 1221 (1987), and does not represent a reasonable interpretation of the statute.

5. Congress has not acquiesced in and thereby ratified the Customs Service's interpretation of Section 526. Be-

fore 1972, it could not have done so because the interpretation was so uncertain that Congress could not have had the "prolonged and acute awareness" of it that this Court requires. *Bob Jones University* v. *United States*, 461 U.S. 574, 601 (1983). Moreover, Congress rejected proposals to repeal Section 526 or write limitations into it. Since 1972, Congress has taken no action that implies ratification of the position stated in the regulations.

6. The regulations cannot be sustained as guidelines for Customs Service enforcement of Section 526. They have never been represented as anything other than interpretations of the statute. To sustain them on some other ground is contrary to *SEC* v. *Chenery Corp.*, 318 U.S. 80, 95 (1943), and to an even more basic rule: if there is discretion to promulgate enforcement guidelines, the discretion is that of the agency and cannot be exercised by a court; the agency has never purported to exercise such discretion here. Nor can the regulations be sustained merely because gray-market importers have relied on them.

## ARGUMENT

Section 526(a) of the Tariff Act of 1930 is clear and unambiguous on its face. Given its natural meaning, Section 526(a) is utterly inconsistent with the Customs Service regulations interpreting it. They remove from its coverage important categories of cases that in terms it covers. The secondary sources of enlightenment on the meaning of the statute—legislative history, contemporaneous administrative interpretation, and subsequent congressional action—tend more to confirm than to cast doubt on the natural meaning of Section 526. When Section 526 is given its natural meaning, as confirmed by the use of these traditional tools of statutory construction, Congress is seen to have expressed its clear intent on the point at issue, and there is thus no occasion for deferring to the Customs Service's current interpretation of the statute. In any event, that interpretation would have to be rejected as not reasonably related to the terms of the statute.



The foregoing paragraph outlines the arguments on the merits made in Parts II through VI of the Argument below. First, in Part I, we demonstrate that the district court had jurisdiction of this case under 28 U.S.C. §§ 1331 and 1338(a) and 15 U.S.C. § 1121.

### I. JURISDICTION OF THIS CASE LIES IN THE DISTRICT COURT AND NOT IN THE COURT OF INTERNATIONAL TRADE.

This action was brought under both Section 526 of the Tariff Act of 1930 and Section 42 of the Lanham Trademark Act of 1946.[12] Jurisdiction was therefore founded on the general federal question jurisdictional grant, 28 U.S.C. § 1331, the specific grant of jurisdiction to the district courts of actions "arising under any Act of Congress relating to . . . trade-marks," 28 U.S.C. § 1338(a), and the even more specific conferral of jurisdiction on the district courts, by Section 39 of the Lanham Act, 15 U.S.C. § 1121, of all cases arising under that Act. (P. 6a, *infra.*)

The district court and the court of appeals in this case and the district court and the court of appeals in *Olympus Corp.* v. *United States*, *supra*, 792 F.2d at 317-19, held that these statutes conferring jurisdiction on the district courts were not affected by the grant of exclusive jurisdiction of certain trade cases to the Court of International Trade by 28 U.S.C. § 1581. (Pp. 7a-9a,

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[12] The court below did not reach the question under Section 42. (Gov't Pet. 9a.) K mart's statement of the question presented in this Court is broad enough to encompass the Section 42 issue, but it should be left to the court of appeals if there is a remand. This Court held in A. Bourjois & Co. v. Aldridge, 263 U.S. 675 (1923), that the words "copy or simulate" in the predecessor to Section 42 covered genuine trademarks identical to United States trademarks. (P. 25, *infra.*) The Customs Service recognized and gave effect to this holding in 1936. (P. 42, *infra.*) The only question concerning the reach of Section 42 (set forth at K mart Br. 3) is whether, when the Lanham Act was enacted, Congress meant to adopt the single-company-ownership limitation that was also written into the regulation governing the predecessor to Section 42. (*Id.*) That is an issue that justifies full briefing.

*infra.*) By contrast, the Federal Circuit, in *Vivitar Corp.* v. *United States*, *supra*, 761 F.2d at 1557-60, held that the Court of International Trade had exclusive jurisdiction of a similar action under two subparts of Section 1581. 47th Street Photo asserts here that the Federal Circuit was right. It was not. Neither of the subparts of Section 1581 relied on by the courts in *Vivitar* and now by 47th Street Photo reaches this case.

**A. This Action Is Not Within the Court of International Trade's "Embargo" Jurisdiction.**

Section 1581(i)(3) of Title 28 gives the Court of International Trade exclusive jurisdiction over any action against the United States that arises out of a law providing for "embargoes or other quantitative restrictions on the importation of merchandise for reasons other than the protection of the public health or safety." 47th Street Photo contends that the case is within that branch of the Court of International Trade's jurisdiction. (Br. 10-17.)

The simple answer to the contention is that Section 526 does not impose an embargo or other quantitative restriction. An embargo, as that term is commonly understood, is a limitation on imports imposed by the Administration for reasons of international trade policy. *E.g.*, *American Association of Exporters and Importers* v. *United States*, 751 F.2d 1239 (Fed. Cir. 1985). Section 526 does not impose any quantitative restrictions on the entry of merchandise nor is it predicated on international trade policy concerns. Instead, it implements private domestic trademark rights vested in United States corporations that own United States trademarks.

The court below stated that "Section 526 confers an absolute, unqualified property right upon American companies that own registered trademarks." (Gov't Pet. 15a-16a.) The lawfulness of an importation under Section 526 depends on whether the owner of the United States trademark has consented to the entry of the trademarked goods. That feature of the statute, emphasizing that it exists to protect private rights, is completely at odds with the concept of embargoes and quotas, which do not enforce private rights and do not delegate to private parties the right to determine whether particular goods may enter. Nor are embargoes commonly thought of as avoidable if only the importer does such a simple thing as removing the trademark from the otherwise embargoed goods. *See Sturges* v. *Clark D. Pease, Inc.*, 48 F.2d 1035, 1038-39 (2d Cir. 1931).



The court below looked at the matter from a slightly different angle and came to the same correct conclusion. It said that "the structure of the statute belies any expansive reading of the term 'embargo'" because the other categories of cases listed in Section 1581(i) "all specifically deal with traditional Customs matters (and thus lie within the Court of International Trade's expertise)." (Gov't Pet. 8a.) The court noted the listing of cases arising under laws providing for "revenue from imports or tonnage," § 1581(i)(1), and for "tariffs, duties, fees, or other taxes on the importation of merchandise," § 1581(i)(2). (Gov't Pet. 8a.) The court thus did not do what 47th Street Photo asserts it did (Br. 11-12): carve out a further exception to Section 1581(i)(3) to add to the express statutory exception for public health and safety embargoes. The court created no new exception but held simply that the effect of Section 526 is not to impose a public-policy embargo. The statute's waivable prohibition of the entry of goods if they are marked in a certain way is not like "quotas and embargoes arising out of trade policy, the sort of measures that have traditionally limited the importation of shoes, textiles, automobiles, and the like." (Gov't Pet. 8a.)[13]

[13] Moreover, if Section 526 is held to impose an embargo, so must Section 42 of the Lanham Act. Despite the suggestion of the court below that 28 U.S.C. § 1581 cuts into Section 39 of the Lanham Act as well as into the district-court jurisdictional provisions of Title 28 (Gov't Pet. 5a n.2), it seems unlikely that Congress meant to

47th Street Photo discusses at length the history of Section 1581(i), the so-called residual subsection of the Customs Court's jurisdictional statute. (Br. 12-17.) None of that history, it should be said, deals specifically with the meaning of the term "embargo." 47th Street Photo contends in particular, based on its discussion of the history, that a policy of uniformity underlying the Customs Court Act of 1980 would be transgressed if the district courts adjudicated claims such as the one involved in this case. But that congressional concern with uniform and consistent application of certain trade laws was intended to implement the constitutional mandate that "all Duties, Imposts and Excises shall be uniform throughout the United States . . . ." *See* U.S. Const. Art. I, § 8[1]; H.R. Rep. No. 1235, 96th Cong., 2d Sess. 29 (1980). That constitutional command is in no way relevant to the issues raised here.

Moreover, uniformity would not be served by granting exclusive jurisdiction to the Court of International Trade of this kind of case, because the district courts and not the Court of International Trade admittedly have jurisdiction over actions brought under Section 526(c) against private parties dealing in merchandise whose presence in this country is rendered unlawful by Section 526(a). *See Vivitar, supra*, 761 F.2d at 1560; *Epocha Distributors* v. *Quality King Distributors*, No. 86-2270 (E.D.N.Y. Jan. 20, 1987). Appeal of such cases is to the regional circuits and not the Federal Circuit. 28 U.S.C. § 1295 (a)(1).

### B. Actions of This Type Do Not Lie Within the Court of International Trade's "Protest" Jurisdiction or Any Supposed "Corollary" Thereof.

The Federal Circuit held in *Vivitar* that the Court of International Trade has exclusive jurisdiction over actions of this type "as a corollary to protest jurisdiction under 28 U.S.C. § 1581(a)." 761 F.2d at 1560. 47th Street Photo echoes that assertion. (Br. 17-18.)

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impair the district courts' otherwise exclusive jurisdiction of Lanham Act actions.



The "protest jurisdiction" of Section 1581(a) to which the Federal Circuit and petitioner refer gives the Court of International Trade "exclusive jurisdiction of any civil action commenced to contest the denial of a protest" under a certain provision of the Tariff Act. A protest is an administrative remedy available to challenge specified decisions by Customs officers, including a decision of a Customs officer ordering "the exclusion of merchandise from entry . . . under any provision of the customs laws." 19 U.S.C. § 1514(a)(4). But there is no statutory provision creating a protest remedy when merchandise is *not* excluded by a Customs officer, as here. Thus, a decision of the Customs Service permitting the importation of certain trademarked goods under Section 526 is not a protestable action.

Nonetheless, the Federal Circuit held in *Vivitar* and 47th Street Photo argues here that, by virtue of Section 1581(i)(4), an action against the Government challenging the Customs Service's regulations permitting the importation of gray-market goods falls within the exclusive jurisdiction of the Court of International Trade as a "corollary" to the protest-review jurisdiction that is clearly unavailable under Section 1581(a). Section 1581(i)(4) gives the Court of International Trade exclusive jurisdiction over any action against the Government that "arises out of any law of the United States providing for . . . administration and enforcement with respect to the matters referred to" in subsection 1581(a), among others. As the court below observed, the "matter" referred to in Section 1581(a) is "the denial of protests." (*See* Gov't Pet. 7a.)

The discussion in the *Vivitar* opinions of why Section 526 is a "law of the United States providing for . . . administration and enforcement with respect to" denial of a protest is not edifying. *See* 585 F. Supp. 1419, 1424-25 (C.I.T. 1984); 761 F.2d at 1560. 47th Street Photo scarcely does better. It says, quite incorrectly, that the court below would limit the Court of International

Trade's jurisdiction "to the protests themselves." (Br. 18.) Obviously, Section 1581(i)(4) adds something. What it seems on its face to add, and what the court below said it added, is "jurisdiction over cases challenging the *procedures*—that is, the 'administration and enforcement'—generally governing such protests." (Gov't Pet. 7a; emphasis in original.)

47th Street Photo says that Section 1581(i)(4) gives the Court of International Trade jurisdiction over "statutes and regulations that are involved in . . . protests." (Br. 18.) What this means is unclear, unless it means that any suit against the Government arising out of any statute that might be authority for excluding goods is within the jurisdiction of the Court of International Trade. But that cannot be. Congress deliberately did not give the Court of International Trade jurisdiction of all customs cases or all trade cases. It considered doing so but wrote the detailed provisions of Section 1581 instead.

An earlier version of Section 1581(i) would have given the court exclusive jurisdiction over any action against the United States or an agency or officer arising from an import transaction and broadly involving "the Tariff Act of 1930" or any one of several other enumerated acts. *See* H.R. 6394, 96th Cong., 2d Sess. § 201(a) (1980). That earlier version was rejected precisely because it would have continued to blur the jurisdictional division between the Court of International Trade and the district courts. *See* H.R. Rep. No. 1235, 96th Cong., 2d Sess. 33 (1980). Instead, Congress chose to enumerate precisely the *matters* over which exclusive jurisdiction is conferred on the Court of International Trade, and it made clear its intent that only "suits of the *type specified*"—not all suits involving certain broad acts—are properly pursued in that court. *Id.* at 47 (emphasis added).

Section 1581 does not diminish the district courts' undoubted jurisdiction of trademark cases by confining this kind of case to the Court of International Trade.



## II. THE LANGUAGE OF SECTION 526 IS CLEAR AND SHOULD BE ACCORDED ITS NATURAL MEANING.

This Court does not often deal with statutes as straightforward and unambiguous as Section 526(a) of the Tariff Act of 1930, 19 U.S.C. § 1526(a). (Pp. 1a-3a, *infra.*) Section 526(a) states simply that goods of foreign manufacture bearing certain trademarks may not enter this country. The proscribed trademark on the imported goods is one owned by a United States citizen or a corporation "created or organized within" the United States. The trademark must have been registered with the Patent and Trademark Office by a person domiciled in the United States. A copy of the certificate of registration must have been filed with the Secretary of the Treasury (by delegation the Customs Service). The owner of the trademark may consent in writing to the entry of goods bearing its trademark, but it may also withhold its consent. There is an exception for a limited amount of merchandise brought in by travelers for their own consumption or use, but there is no other exception.

### A. Because the Meaning of Section 526 Is Clear from the Words in Which Congress Expressed Itself, It Should Be Given Effect in Accordance with Those Words.

In *Amoco Production Co.* v. *Village of Gambell*, 107 S. Ct. 1396 (1987), this Court restated in the strongest terms the primacy of statutory language taken at its ordinary face value as a guide to congressional purpose. The Court quoted from *United States* v. *Locke*, 471 U.S. 84, 95 (1985), a statement that "deference to the supremacy of the Legislature, as well as recognition that Congressmen typically vote on the language of a bill, generally requires us to assume that 'the legislative purpose is expressed by the ordinary meaning of the words used.'" 107 S. Ct. at 1406.[14] Earlier in this 1986 Term, the Court

[14] The internal quotation is from Richards v. United States, 369 U.S. 1, 9 (1962).

spoke of a "strong presumption that Congress expresses its intent through the language it chooses." *INS* v. *Cardoza-Fonseca*, 107 S. Ct. 1207, 1213 n.12 (1987). "If the statute is clear and unambiguous that is the end of the matter, for the court, as well as the agency, must give effect to the unambiguously expressed intent of Congress." *Board of Governors* v. *Dimension Financial Corp.*, 474 U.S. 361, 368 (1986) (citations omitted); *see also Burlington Northern R.R.* v. *Oklahoma Tax Commission*, No. 86-337 (April 28, 1987), slip op. at 5-6.

Judged against the ordinary meaning of the words of Section 526(a), the Customs Service's regulations (pp. 4a-5a, *infra*) are not interpretation or construction but wholesale reconstruction. The regulations are like the rejected view of the respondents in the *Burlington Northern* case as to the meaning of the statute empowering federal courts to act against discriminatory property taxes on railroads: to sustain them "would require amendment rather than construction of the statute." *Burlington Northern, supra*, slip op. at 7. The regulations deny the applicability of the statute to the cases where (1) the United States trademark and the identical foreign trademark are owned by the same company, (2) the owners of the United States and the foreign trademarks are parent and subsidiary or otherwise subject to common ownership or control, and (3) the foreign trademark was applied under the authorization of the United States trademark owner. 19 C.F.R. § 133.21(c)(1)-(3). The Customs Service has effectively rewritten the statute in such a way as to deprive it of most of its coverage.

### B. There Is No Ambiguity in Section 526 That Requires Reference to Secondary Sources.

None of the petitioners has shown how the words of Section 526 can be narrowed to make them accord with the regulations. Only one has tried. Unlike the Government, which concedes that the statute seems not literally to allow of the gaping hole the Customs Service regulations tear in it (Br. 11) and K mart (Br. 15), 47th Street Photo attempts a textual analysis. It asks rhetorically the meaning of (1) "owned," as used in Section 526 to prescribe that a trademark must be owned by a citizen of the United States or a "corporation . . . created or organized within . . . the United States," and (2) "domiciled," as used to prescribe that a trademark must be registered by a person domiciled in the United States. (Br. 19.) Its surprising answer is that—to take a concrete example—because some Chevrolets are manufactured abroad by a General Motors subsidiary, General Motors either does not "own" its Chevrolet trademark or is not "domiciled" in the United States and thus is outside Section 526. (*Id.* at 20-22.) There is no other way to understand 47th Street Photo's concluding remark that "[t]he statutory terms 'owned' and 'domiciled' should . . . be read as limiting Section 526 to truly independent American companies that are unaffiliated with foreign producers." (*Id.* at 22.)

This novel attempt at textual analysis would be coherent, though not persuasive, if limited to the case of the American subsidiary that is a distributor for a foreign manufacturing parent. But it cannot be so limited because 47th Street Photo has to cut the cloth of its argument to fit the full contours of the Customs Service's regulations. The regulations exclude Kodak, Procter & Gamble, Ford, and Johnson & Johnson as well as General Motors from the protection of Section 526 just as much as they do the United States distributors of Japanese cameras and watches on which petitioners would like the Court to concentrate. The idea that Congress intended that American manufacturing companies such as those just named should not be considered the owners of their United States trademarks (or not domiciled in the United States) is simply bizarre.

Even limited to the case of a United States distributor subsidiary of a foreign manufacturing parent, 47th Street Photo's textual analysis is unpersuasive. The obvious way for Congress to have excluded foreign-owned subsidiaries from the protection of Section 526 would have been by a

constraining definition of the kind of corporate citizen that could qualify as an owner of a trademark and domiciliary of the United States. Congress, however, wrote no constraining definition of corporate citizenship. When Congress has in fact wanted to restrict the foreign affiliations of the corporate equivalent of an individual citizen, it has known how to do so. In such cases it demands not only that the corporation be created or organized "within the United States," *i.e.*, under the laws of one of the states, but also that United States citizens own a specified percentage of voting stock and hold a specified proportion of seats on the board of directors. *E.g.*, Federal Aviation Act § 101(16), 49 U.S.C. § 1301(16); Foreign Agents Registration Act, 18 U.S.C. § 1386(A); Communications Act of 1934, 47 U.S.C. § 310(a)(4)-(5). Congress pointedly did not do that here. (*See* p. 31, *infra*.)

As the Government reminds us (Br. 12), this Court has said that a court may be persuaded that "Congress did not intend words of common meaning to have their literal effect." *Watt* v. *Alaska*, 451 U.S. 259, 266 (1981). But that unquestionable proposition is irrelevant when there is no uncommon meaning that the words of a statute can be made to bear. Nor is this such a case as *Church of the Holy Trinity* v. *United States*, 143 U.S. 457, 460 (1892) (Gov't Br. 12 n.14), in which the Court considered itself justified in ignoring an omission from a statute because giving it effect yielded an "absurd result." The statute here, construed according to its terms, yields a perfectly rational result, as we have seen. Furthermore, what the Customs Service regulations do is not to ignore some particular term of the statute in a particular absurd application but to rewrite the statute altogether. Not even *Church of the Holy Trinity* is authority for that treatment of a statute.[15]

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[15] Moreover, this Court has cautioned that the *Church of the Holy Trinity* rule is to be applied only rarely. *E.g.*, United States v. Rutherford, 442 U.S. 544, 555 (1979).



## III. THE LEGISLATIVE HISTORY OF SECTION 526 CONFIRMS ITS NATURAL, BROAD MEANING.

Although this Court has said that, when it finds "the terms of a statute unambiguous, judicial inquiry is complete, except in 'rare and exceptional circumstances,'"[16] we turn to a discussion of secondary sources, including first the legislative history of Section 526, because that is where the arguments of petitioners to which we are responding necessarily take them. They cannot cope with the clarity of the natural meaning of the statute.

The legislative history does not avail them. It does not disclose a "clearly expressed legislative intention," *United States* v. *James*, 106 S. Ct. 3116, 3122 (1986), running counter to the plain language of the statute, which is what the Court indicated in *Cardoza-Fonseca*, *supra*, 107 S. Ct. at 1213 n.12, it takes to "require us to question the strong presumption that Congress expresses its intent through the language it chooses." To the contrary. The court below was plainly right when it concluded from its review of the circumstances of the enactment of Section 526 and its history "that the statute embodies a purpose as sweeping as the terms its drafters employed." (Gov't Pet. 12a.)

It is well to have in mind in considering the legislative history how dependent petitioners are on secondary sources and on one part of the legislative history in particular. Early in petitioners' arguments the words of the statute are forgotten. What matters to them, ultimately, is what was said on the Senate floor in a 10-minute debate in 1922. Congress could have used any form of words, and petitioners would urge this Court to ignore them and instead to construct a statute from what they take Senators to have said in that brief and not very well-informed debate.

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[16] Garcia v. United States, 469 U.S. 70, 75 (1984), quoting "rare and exceptional circumstances" from TVA v. Hill, 437 U.S. 153, 187 n.33 (1978), which in turn quoted Crooks v. Harrelson, 282 U.S. 55, 60 (1930). *See also* Burlington Northern R.R. v. Oklahoma Tax Comm'n, No. 86-337 (April 28, 1987), slip op. at 5-6.

### A. The Historical Background of Section 526 Confirms the Breadth of Its Meaning.

The broad meaning of Section 526 is confirmed by the historical context in which it was enacted. The context is described succinctly in the opinion of the court of appeals. (Gov't Pet. 12a-14a.) In brief: In 1921 the Court of Appeals for the Second Circuit decided *A. Bourjois & Co.* v. *Katzel*, 275 F. 539, a case that was contentious as soon as it was decided. The plaintiff was a United States company that had purchased from a French manufacturer of face powder that firm's United States business, including its United States trademark, and thereafter imported the manufacturing company's Java face powder and distributed it in this country. The defendant was a retail druggist who had bought some of the same powder in France and imported it and sold it in competition with the Bourjois company under the nearly identical French trademark. In accordance with a view of trademark law that it had espoused for some years [17] (and that no other federal court had contradicted), the Second Circuit reversed a district court's grant of an injunction against the claimed trademark infringement.

Over the prescient dissent of Judge Hough,[18] the court of appeals ruled that, "[i]f the goods sold are the genuine goods covered by the trade-mark, the rights of the owner of the trade-mark are not infringed." 275 F. at 543. Both this Court, *see id.* at 544, and the Congress were importuned to do something about the Second Circuit's *Katzel* decision. This Court granted certiorari, 257 U.S. 630 (1921), and reversed the Second Circuit in an opinion by Justice Holmes. The Court held that the im-

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[17] *See, e.g.*, Fred Gretsch Mfg. Co. v. Schoening, 238 F. 780 (2d Cir. 1916).

[18] He wrote that his colleagues of the majority seemed to him in their decision "to lean the wrong way" in resolving what he thought was the unsettled question "whether a trade-mark is to be primarily regarded as protecting the trade-mark owner's business from a species of unfair competition, or protecting the public from imitations." 275 F. at 543.



ported French powder bearing a mark identical to the United States mark owned by the Bourjois company infringed that mark. *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689 (1923).

As noted in the opinion below, the Court thereby adopted what is known as the "territoriality" theory of trademarks. (Gov't Pet. 13a.) On this theory, the protection of trademarks is a function of the laws of a particular sovereign, so that it is wrong to speak, as the Second Circuit had in conformity with its rejected "universality" theory, of the French goods bearing the French trademark as "genuine goods covered by *the* trade-mark." 275 F. at 543 (emphasis added).

> "It is said that the trade mark here is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trade mark of the plaintiff only in the United States and indicates in law . . . that the goods come from the plaintiff although not made by it." 260 U.S. at 692.

Later that same year, the Court held on the authority of *Katzel* that goods bearing a foreign trademark identical to a mark owned by a United States company should be excluded from importation by the Customs Service, under Section 27 of the Trade-mark Act of 1905, which forbade the importation of goods bearing a trademark that "shall copy or simulate" a registered United States trademark. *A. Bourjois & Co.* v. *Aldridge*, 263 U.S. 675 (1923), *answering questions certified at* 292 F. 1013 (2d Cir. 1922). (*See* Gov't Pet. 14a n.10.)

### B. The 1922 Legislative History Further Confirms the Breadth of the Statutory Terms.

Congress reacted to the clamor that followed the Second Circuit's decision in *Katzel* before this Court reversed the decision. The bill that became the Tariff Act of 1922 was pending. Section 526 was proposed as an amendment to that bill on the Senate floor, adopted after the 10-minute debate that the petitioners rely on so heavily, amended in conference, and passed as part of the Tariff

Act. By Section 526 Congress anticipated this Court in, as the court below put it, rejecting "without qualification the legal theory underlying the Second Circuit's opinion in *Katzel*—the view that a trademark genuine in a foreign country is necessarily genuine here as well"—and in writing "the alternative 'territoriality' approach into law." (Gov't Pet. 14a-15a.)

Congress' "sweeping rejection of prevailing legal doctrine" (*id.* at 15a), in favor of territorial protection of a United States-owned and registered trademark, is well described in the Conference Committee's report:

> "A recent decision of the circuit court of appeals holds that existing law does not prevent the importation of merchandise bearing the same trade-mark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. The Senate amendment makes such importation unlawful without the consent of the owner of the American trade-mark, in order to protect the American manufacturer or producer . . . ." H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922).

The first sentence of this part of the conferees' report begins with a statement of the *Katzel* rule of law at the highest level of generality. *Katzel*, it is plain from the committee's statement, is not being overruled on its narrow facts.[19] There is no reference to the appealing equities of the Bourjois company's case: the fact that it had bought the United States trademark and had no other relationship with the French source of the competing goods than that of supplier and distributor. Instead, Bourjois's case is made the vehicle for stating broadly the

[19] The court below pointed out that the committee mistakenly described *Katzel* as an importation case rather than an infringement case. (Gov't Pet. 15a.) For some reason, the Government feels a need to dispute the court on this point (Br. 27), which had nothing to do with the court's assessment of the significance of the committee's report. Moreover, the distinction the Government would draw between trademark law and import law (*id.* at 27-28) is empty. The territoriality of trademark protection is an issue only when goods are imported.



present state of the law, even emphasizing the equitable policy basis of the doctrine of universality—"the imported merchandise is genuine and . . . there is no fraud upon the public." The second sentence states flatly that Section 526 would make unlawful, without the United States trademark owner's consent, the importation of goods that the universality doctrine would allow—the importation of genuine goods bearing the same trademark as merchandise sold in the United States under the United States trademark.

The reference in the report to the purpose of protecting American "producers and manufacturers" (of which petitioners make a good deal) cannot be taken as an implied limitation on the scope of the words used to carry out the purpose. The plaintiff in *Katzel* was neither a producer nor a manufacturer but only a distributor of the French powder.[20] Other plainly intended beneficiaries of Section 526—for example, the "American citizens [who] have purchased the trade-mark of the Hunyadi Janos water," 62 Cong. Rec. 11,603 (1922)—were not producers or manufacturers. Moreover, as we are bound to reiterate, many undoubted American producers and manufacturers are denied the protection of Section 526 by the Customs Service's regulations.

Petitioners, by the attention they pay to the Conference Committee, implicitly recognize that, as this Court has said, committee reports are the "authoritative source for finding the Legislature's intent," *Garcia* v. *United States*, 469 U.S. 70, 76 (1984), and that in this case

[20] K mart (Br. 21-22) describes certain packaging activities of the plaintiff in *Katzel* in a vain attempt to make it a "manufacturer" of the imported powder that it distributed. But the fact that Bourjois packaged the powder in the United States does not make it a manufacturer. See 275 F. at 539 and Justice Holmes' remark (p. 25, *supra*) that the goods were "not made by" the plaintiff. Moreover, many United States companies with foreign affiliates undertake the kinds of packaging and marketing activities of the plaintiff in *Katzel*, yet are denied the protection of Section 526 by the Customs Service's regulations.

there is no other relevant committee report. However, petitioners rely principally on the far less trustworthy Senate floor debate. (Gov't Br. 17-25, 47th Street Photo Br. 26-29, K mart Br. 19-20.) The debate persuades the Government that Congress had no intention on the point at issue in this case. (Br. 22-24.) 47th Street Photo (Br. 29) is almost as cautious, persuaded by the legislative history only that "a narrow reading of Section 526 makes eminently good sense." K mart (Br. 17) finds a "clear picture of the purpose behind Section 526," which demonstrates "the reasonableness of the Customs Service regulation." Neither the modest claims nor the bolder one are well-founded. The court below thought that the Senate debate, "considered as a whole," reinforced its "conclusion that Section 526 confers an absolute, unqualified property right upon American companies that own registered trademarks." (Gov't Pet. 15a-16a.) We point out reasons why the court below was correct in finding in the debate reinforcement for that conclusion.

1. The proposed amendment that became Section 526 was seen by opponents as another in a series of concessions to certain business interests—"written by a lawyer well known in the precincts of the Capitol" and brought in by the Finance Committee "the other morning after their midnight session," and therefore "fairly classified now as one of the midnight amendments, like the 'midnight judges' of the John Adams administration"; "another diamond-studded link in the chain with which the Committee on Finance seems bound to adorn the buxom bosom of certain interests in this country." 62 Cong. Rec. 11,602 (1922). As the court below observed, faced with that kind of reaction, sponsors of the amendment naturally tried "to understate its significance by focusing on its most notorious targets." (Gov't Pet. 17a.) So focusing, they went so far as to blur one of the targets, stating that all the amendment did was to "prevent fraud" and imputing to the *Katzel* case a species of fraud not present in it. Sponsors indicated incorrectly that the French powder maker that had sold its United States trademark



to the Bourjois company itself imported the competing Java powder.[21] 62 Cong. Rec. 11,603, 11,605. The assertions in the debate that Section 526 concerned only fraud must, therefore, be taken at a substantial discount.

2. The most dogged opponent of Section 526 was Senator Lenroot. He raised a point that the sponsors had apparently not considered when he wondered what would happen if an American citizen—perhaps a Wisconsin constitutent of his—went to Toronto and, while there, purchased a sack of Wonder Flour, an American product, and tried to bring it back into this country. "Am I correct," he asked, that "[u]nder this section that merchandise must be confiscated." *Id.* at 11,603. A sponsor, Senator Sutherland (who had just assured the Senate that the only aim of the amendment was "to prevent . . . a palpable fraud"), responded concerning this case of something very far from fraud: "And it ought to be [confiscated]." Senator Lenroot exploited the opening this response gave him, embellishing his description of the plight of the American citizen who must suffer confiscation of the fine American product he had bought in Canada in preference to a sack of Canadian flour "[u]nless he has the written permission of the maker of that flour." Senator McCumber, a sponsor with more political sense than Senator Sutherland, saw the point and offered an amendment requiring that goods to be excluded be of foreign manufacture. *Id.* at 11,604.

If the Customs Service's regulations now in force correctly reflected the intent of the sponsors of Section 526, Senators Sutherland and McCumber need not have been

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[21] Not even the Second Circuit would have withheld protection in such a case. *See* A. Bourjois & Co. v. Katzel, 275 F. 539, 540 (2d Cir. 1921); Apollinaris Co. v. Scherer, 27 F. 18, 20-21 (C.C.S.D.N.Y. 1886). A statute limited to what were represented on the floor to be the facts of *Katzel* would therefore have had very little substance. The Government nevertheless thinks it no more than "reasonable" that the Customs Service extends protection beyond the misstated facts of *Katzel* to the actual facts of third-party importation. (Br. 33 n.39.)

embarrassed by Senator Lenroot's questions at all. They would have answered that the amendment would not apply to his putative constituent because the trademark had been placed on the sack of Wonder Flour by the United States owner of the Wonder Flour trademark. As the court below concluded, neither Senator made that response because no such limitation was expressed in the amendment they were sponsoring or intended by it. (*See* Gov't Pet. 17a.)

3. Finally, Senator Edge asked whether a foreign manufacturer could, through an agent in this country, register United States trademarks and then control the distribution of goods bearing those trademarks that were imported into this country. Senator McCumber answered that a foreign manufacturer would not be able so to use agents "because there must be one domiciled in this country who is the owner of the trademark . . . ." 62 Cong. Rec. at 11,605. Senator Lenroot pressed the point with Senator McCumber, using as a hypothetical example the foreign manufacturer of the well-known Pears' soap registering its trademark through a domiciliary agent. The colloquy, which is recorded in the opinion below (Gov't Pet. 18a-19a), ended without Senator Lenroot's getting a definitive answer to his question (which is a branch of the question presented in this case). But Senator McCumber did not deny what Senator Lenroot was critically implying about the reach of the statute by his questions and what he actually affirmed by his final unanswered question. (*Id.*) Furthermore, Senator McCumber in his answer to Senator Lenroot's next-to-last question seemed clearly to distinguish the case of a United States corporation that owned the trademark—"suppose the trade-mark is owned exclusively by an American firm or corporation" —from that of a foreigner "having a trade-mark and registering that trade-mark in the United States, and selling the goods in the United States through an agency"; that latter case, "of course, would not be affected by this provision." (*Id.* at 18a.)



Senator McCumber may have misspoken in answering Senator Edge's question about the foreign manufacturer's use of an American agent. As the amendment then read, it required only that the trademark be registered by a domiciliary. The conferees added the requirement that a trademark be owned by a "citizen of, or . . . a corporation or association created or organized within, the United States." The Conference Committee report noted this amendment to the amendment. H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922). Thus, the accuracy of Senator McCumber's answer was nailed down explicitly. However, though Senator Lenroot pointedly raised the issue of the treatment of a corporation created within the United States acting as agent or distributor for a foreign parent, Congress went no further. As the court of appeals said, the "reasonable inference" is that Congress "consciously drew the line at American companies, and did not adopt distinctions among different categories of American companies." (Gov't Pet. 19a.)

In the first case in which Section 526 was construed, an argument that it should be limited in its application because of its source in the desire of Congress to overrule *Katzel* was made and rejected. *Sturges* v. *Clark D. Pease, Inc.*, 48 F.2d 1035 (2d Cir. 1931). An American traveling in Europe purchased in Paris a second-hand Hispano-Suiza, a luxury automobile of the time bearing the trademark "H-S," which was owned and registered in the United States by a distributor. The new owner of the car asserted that the term "merchandise" in the statute did not encompass goods imported for personal use and consumption—that such importations were too far removed from the commercial context of *Katzel* to be covered by the statute. For a distinguished panel (including Judges Learned Hand and Swan), Judge Augustus Hand wrote that his court's *Katzel* decision "doubtless brought about the legislation by Congress," and that, if the Supreme Court had reversed the decision before the Tariff Act was enacted, the "provisions in question would not have been enacted at all." *Id.* at 1037. Then he

stated: "But this fact does not settle the scope of the act." What the court referred to as "this drastic statute" had a scope, defined by its words, that went beyond its *Katzel* source.[22]

**C. The Reenactment of Section 526 in 1930 Confirms the Congressional Intent That the Words of the Statute Should Be Given Their Natural Meaning.**

That Congress as well as the court then most intimately familiar with the matter understood that Section 526 had a scope not limited by its *Katzel* source was demonstrated at about the same time as *Sturges* was decided. In 1930, Section 526, which had been enacted as a section of the Tariff Act of 1922, was repealed and reenacted as Section 526 of the Tariff Act of 1930, the Smoot-Hawley Tariff Act. 46 Stat. 741. The House passed a tariff bill that would have reenacted Section 526 without change. The Senate Finance Committee, however, recommended to the Senate that it remove from Section 526 the clause that allows the entry of otherwise excludable trademarked goods if the United States trademark owner consents in writing. The committee thought it reasonable "to require, so far as practicable, that . . . the holder of the trade-mark shall manufacture his goods in the United States" in exchange for the benefit of the "monopoly in the use of the mark" conferred by United States laws. S. Rep. No. 37, 71st Cong., 1st Sess. 75 (1929). The target of the amendment was obviously runaway plants, the purpose to preserve American jobs. A manufacturer would not build a plant abroad if he did not think he could import trademarked goods produced in it. The amendment would have simply taken Section 526 as it was and made no change other than to strike the final clause: "unless written consent of the owner of such trade-mark was produced at the time of making entry." 71 Cong. Rec. 3871 (1929).

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[22] *See also Vivitar, supra*, 761 F.2d at 1565. Judge Leval reached the same conclusion in Osawa & Co. v. B&H Photo, 589 F. Supp. 1163, 1175 (S.D.N.Y. 1984).



The debate on this proposal in the Senate extended over two days. *Id.* at 3871-76 (Sept. 23, 1929), 3889-906 (Sept. 24, 1929). The most vigorous proponent of the amendment was Senator Reed of Pennsylvania. He spoke of American companies, including General Motors and some Massachusetts shoe factories, that had established overseas plants and could import trademarked foreign-manufactured goods produced there because of the consent clause. *Id.* at 3873. He clearly did not think that, because the trademarks on the goods manufactured in those foreign plants were owned by the same companies that owned the United States trademarks, the goods could be imported regardless of the trademark owner's consent. If he had, he would have known his amendment was pointless.

The Senate, agreeing that American jobs should be preserved, voted with its committee to strike the consent clause from Section 526. *Id.* at 3906. The Conference Committee, however, rejected the Senate's amendment and restored the consent clause. *See* S. Doc. No. 138, 71st Cong., 2d Sess. 1 (1930). Section 526 then was passed by both houses in its 1922 form as Section 526 of the Smoot-Hawley Tariff Act.

The assumption underlying all of this congressional action—the Finance Committee recommendation, the two-day Senate debate, the Senate vote, and the consideration and rejection of the Senate position by the conferees and finally by the Congress—was necessarily that Section 526 applies when both the United States trademark and the identical mark on the merchandise of foreign manufacture are owned by the same company. Not a Senator, so far as appears from the recorded history, suggested the possibility that his colleagues were debating emptily because the statute they were talking about amending did not affect situations in which the United States trademark owner affixed the identical mark abroad.

There is no way to explain away the significance of this 1929-30 history of the reenactment of Section 526. The Government tries (Br. 25-26, 29-30), but what it says makes no sense. It says that what was proposed in the Senate was "not simply an amendment of Section 526; it was an enactment of new legislation, under the same section number, for a completely different purpose." (Br. 29.) But, as we have seen, the Finance Committee's proposal was an amendment that took the existing Section 526 as it was and merely deleted the consent clause.

Senator Reed, the chief proponent, had voted for Section 526 in 1922. 62 Cong. Rec. 11,605 (1922). The Government cannot mean that he understood that Section 526 of the 1922 Act, in the enactment of which he had participated, did not apply to the case he was talking about. If he had so understood, then even on the Government's strange theory of shifting meanings he would surely have said so and, for safety's sake, said further that the words of the statute would have to be endowed with a new meaning if his amendment were adopted. Only thus could he be sure that Customs Service regulation writers had the cue they would need to write regulations that would apply the new statute "in accordance with the legislature's intent" (Gov't Br. 30). On the other hand, if Senator Reed and other Senators who had participated in the 1922 vote on Section 526 (23 of whom were still sitting in 1929) did not understand the limitations of the existing Section 526, it is hard to know who *is* supposed to have understood them in 1929.

There is, finally, the matter of Senator Reed's grammatical lapse. All three petitioners[23] join in urging that Senator Reed, during a debate in which he was arguing that the elimination of the consent clause would inhibit runaway plants, expressed the view that the existing statute did not give the owner of such a plant the right

[23] Gov't Br. 30 & n.36, K mart Br. 26, 47th Street Photo Br. 29 n.19.



to withhold his consent to importation and exclude his goods if the trademark was affixed abroad with his consent. What Senator Reed said was:

> "At the present time the tariff laws forbid the importation of an article bearing a trade-mark registered in America unless the owner of that trademark consents in writing to the importation. Obviously the purpose of that provision is to protect the American owner of the trade-mark against importations of articles which have been stamped with his mark without his consent." 71 Cong. Rec. 3873 (1929).

Senator Reed must have intended "without his consent" to modify "importations of articles" and not, as would seem to be the case grammatically, "stamped with his mark."[24] The debate concerned consent to importation, and Senator Reed talked about "consent." He would probably have used the term "authorized" if he had meant to refer to the use of the owner's trademark and not permission to import. That is the term the Customs Service used 40 years after Senator Reed's remark when it finally caught up with this interpretation of Section 526. (P. 48, *infra.*) The Government says that the logical interpretation of the Senator's remark, adopted by the court below (Gov't Pet. 20a n.12), reduces it "to an ungrammatical tautology." (Br. 30 n.36.) Ungrammatical perhaps, but it is no tautology or even a substantial

[24] How petitioners profit from Senator Reed's statement even if it is read illogically is not clear. If he is taken to have been referring to affixing foreign trademarks without the United States trademark owner's consent and if he was thereby stating exhaustively the purpose of the statute, the statute's coverage of petitioners' paradigm case of the United States subsidiary distributor for a foreign manufacturer would not be affected. Even in petitioners' strange lexicon, that distributor cannot be said to be giving consent to the use by the parent manufacturer of the manufacturer's own trademark on goods manufactured for markets other than the United States.

redundancy to describe a statute in one sentence and state its purpose in somewhat the same words in the next. That sort of Senatorial rhetoric is much more likely than a novel use of the word "consent" in one sentence when a very specific kind of consent was the whole subject of the debate and the speaker had used the word "consents" in referring to that kind of consent in the preceding sentence.

**D. There Is No Authority for Departing from the Words of the Statute on the Basis of the Kind of Legislative History That Section 526 Had.**

The Government invokes *Guerra*[25] as authority for departing from the literal meaning of the words of Section 526 on the basis of legislative history. (Br. 12-14.) In *Guerra* the Court found the clearest kind of evidence in the legislative history and historical context of the Pregnancy Discrimination Act of 1978 that it had been enacted for a very narrow purpose and construed its language correspondingly narrowly. This case is not at all the same even on the Government's view of the legislative history. The Government, while disagreeing with the view of the court below that the history confirms the breadth of the language of Section 526, is able to assert only "the absence of a clear legislative intent." (Br. 29.) The legislative history has provided a basis for something much more than that modest conclusion in all the cases cited by the Government and the private petitioners (47th St. Photo Br. 21-22, K mart Br. 15-19) in which this Court has seemingly strained congressional language because of the intent it found expressed in legislative history.

[25] California Federal Savings & Loan Ass'n v. Guerra, 107 S. Ct. 683 (1987).



## IV. THE CURRENT CUSTOMS SERVICE REGULATIONS REST ON NO EXPLICIT INTERPRETATIVE AUTHORITY OR AUTHORITY BORN OF AGENCY EXPERTNESS; THE AGENCY'S CONTEMPORANEOUS INTERPRETATION OF SECTION 526 ACCORDED WITH ITS TERMS, AND THE SUBSEQUENT INTERPRETATION HAS BEEN UNCERTAIN, WAVERING AND UNEXPLAINED.

We turn now to the administrative interpretation of Section 526. The Government and K mart give a new twist to the argument based on the administrative interpretation by their emphasis on the general rulemaking authority of the Customs Service. (Gov't Br. 3, 26, 31, 35, 45; K mart Br. 12-13.) The argument is not thereby improved, as we show immediately hereunder. Then we show that the contemporaneous administrative construction of Section 526, in 1923 and 1931, did not suggest the limitations on its scope imposed by the current regulations. Finally we explore the wavering course of administrative interpretation between 1936 and 1972 and even after the promulgation of the current regulations in the latter year.

**A. Congress Did Not Delegate Authority to the Customs Service to Fill Gaps in, Enlarge, or Constrict the Basic Terms of Section 526(a).**

Section 526(a) is not a statute, like so many, where an agency is directed to act in or promote the "public interest" or is given some other charter of comparable breadth. *E.g.*, *Red Lion Broadcasting Co.* v. *FCC*, 395 U.S. 367, 379-80 (1969). All that the agency is directed to do is to exercise the power granted by Section 526(b) to seize goods that are imported in violation of Section 526(a). Congress did not phrase the basic terms of Section 526(a) in such a way as to invite agency interpretation. (*See* Gov't Pet. 22a.) The Customs Service does have general authority to make rules to enforce all the various provisions of the Tariff Act of 1930. § 624, 19 U.S.C. § 1624. But that authority does not enlarge

what would otherwise be its power to interpret particular provisions of Section 526.

In sharp contrast to the basic terms of Section 526(a) are the provisions dealing with the exemption for goods imported for personal use or consumption. Very broad power is expressly conferred on the Secretary of the Treasury by Section 526 and has been delegated by him to the Customs Service to determine what articles may be brought into the country by travelers pursuant to the personal consumption or use exemption and in what quantities, § 526(d)(2), and to make other rules and regulations to implement the exemption, § 526(d)(4). (P. 2a, *infra.*) When Congress grants that kind of power to fill in details it does so in the terms it used in Section 526(d). It used comparable language to empower the Federal Reserve Board to specify and amplify the terms and policy of the Truth-in-Lending Act, as elucidated in *Mourning* v. *Family Publications Service, Inc.*, 411 U.S. 356 (1973), one of petitioners' favored precedents on this point. It said nothing comparable concerning a power to make rules interpreting or carrying out the basic terms of Section 526(a).

The Customs Service was sensibly authorized to fill in the details of the personal use exemption, which Congress legislated in general terms, because, as a result of its experience, it is expert in the habits and needs of tourists. Its 1972 regulations limiting the reach of Section 526(a) have nothing to do with areas of agency expertise such as customs matters or fiscal policies. The Secretary of the Treasury has represented to inquiring Senators that the regulations are based on *United States* v. *Guerlain, Inc.*, 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded*, 358 U.S. 915 (1958), *dismissed with prejudice*, 172 F. Supp. 107 (S.D.N.Y. 1959) (pp. 45-46, *infra*), in which antitrust notions led the district court to read Section 526(a) narrowly. (J.A. 82-85.) The court below divined that the Customs Service's narrowing of the basic terms of Section 526(a)—never contemporaneously explained by it—appeared to rest in part on the legislative history and, noting the Secretary's letter, "in part on an accommodation of Section 526 with the policy of the antitrust laws." (Gov't Pet. 26a-27a.)



Neither the Customs Service nor its parent agency the Treasury is expert in antitrust matters.[26] The invocation of the *Guerlain* case as an underpinning of the 1972 regulations demonstrates the point. As the court of appeals put it, "prevailing antitrust doctrine has changed significantly since the *Guerlain* era." (*Id.* at 27a.) The district court's opinion in *Guerlain* disregarded interbrand competition and focused on the purported undesirability of allowing a distributor to place vertical restraints on the distribution of its products. The court also constructed a "market" for each of the perfume company defendants in *Guerlain* consisting of transactions in its own trademarked products, an odd concept even then.[27] 155 F. Supp. at 83-87.

With *Continental TV* v. *GTE Sylvania*, 433 U.S. 36 (1977), this Court has established that restrictions imposing the type of non-price "vertical restraints" involved in *Guerlain* are subject to the antitrust rule of reason and are not *per se* unlawful. The court below noted that "it is now recognized that domestic vertical restraints . . . may in fact have procompetitive effects." (Gov't Pet. 27a.) The promotion of interbrand competition stands high among such effects.[28] Similarly, the Court has repudiated the construction of the kind of narrow artificial markets that were constructed in *Guerlain* as a predicate for antitrust liability. *See, e.g.*, *Rice* v. *Norman Williams Co.*, 458 U.S. 654, 661-62 (1982).

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[26] Or, apparently, in the uses of precedent. Because this Court vacated the district court's judgment, the *Guerlain* case has no precedential value even for another court. *E.g.*, Los Angeles County v. Davis, 440 U.S. 625, 634 n.6 (1979).

[27] *See, e.g.*, Handler, *Trademarks—Assets or Liabilities?*, 48 Trademark Rep. 661 (1958).

[28] *E.g.*, Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752 (1984); Monsanto Co. v. Spray-Rite Service Corp., 465 U.S. 752 (1984).

Another proof of the inexpertness of the agency in antitrust matters is that, if vertical restraints are bad, it is not because of the corporate relationship of the parties to them. In commercial and economic terms there is little or no difference between the restraint effected by an agreement between an exclusive United States distributor that is independent (the Bourjois company, for example) and its supplier and the arrangement between a subsidiary United States distributor and its supplier. The ill-fated and short-lived *Schwinn* condemnation of non-price vertical restraints as per se illegal under the antitrust laws, which was the law when the Customs Service regulations were adopted in 1972, was born of the relationship between a manufacturer and unrelated distributors. *United States* v. *Arnold, Schwinn & Co.*, 388 U.S. 365 (1967). Since *Copperweld Corp.* v. *Independence Tube Corp.*, 467 U.S. 752 (1984), indeed, it is only such a relationship that even raises an antitrust issue.

**B. The Regulations Are Neither Consistent Nor Longstanding Interpretations of the Statute.**

The agency's current regulations do not reflect either a longstanding or a consistent interpretation of Section 526. Moreover, it is ordinarily the contemporaneous agency interpretation that commands a reviewing court's respect. *Zenith Radio Corp.* v. *United States*, 437 U.S. 443, 450 (1978). Here, the contemporaneous interpretations of Section 526 do not hint at the detailed limitations of the 1972 regulations. Later regulations do not manifest the kind of thoroughness, validity, and consistency of reasoning that this Court has said may entitle an agency's view of the meaning of a statute to deference.[29]

[29] *See* Federal Election Comm'n v. Democratic Senatorial Campaign Comm., 454 U.S. 27, 37 (1981); Bowen v. American Hospital Ass'n, 106 S. Ct. 2101, 2122 n.34 (1986); Watt v. Alaska, 451 U.S. 259, 273 (1981).



**1. *Contemporaneous Customs Interpretations Confirm the Broad Scope of Section 526.***

The contemporaneous interpretations of Section 526 gave the statute its full, unrestricted scope. Both in 1923 and in 1931, the Treasury considered the newly enacted statute and placed no restrictions on its applicability. Article 476 of the Treasury's customs regulations promulgated in 1923 tracked the language of Section 526. (J.A. 17-18.) It provided that "[t]rade-marks owned by an American citizen or by a corporation or association created or organized within the United States are entitled to the protection of section 526" if properly registered with the Patent Office and recorded with the Treasury Department.

The Treasury issued a second contemporaneous interpretation of Section 526, newly reenacted, in 1931. Article 518(a) of the Customs regulations as adopted in 1931 stated:

> "Entry is prohibited of imported merchandise bearing a genuine trade-mark when such trade-mark is recorded with the Treasury Department and registered under the trade-mark law of February 20, 1905, if compliance is had with all provisions of section 526 of the tariff act of 1930, provided the period of protection for such trade-mark has not expired." (J.A. 23; *see also* Arts. 518(b), 519(c), J.A. 23, 24.)

Thus, "the Customs Service gave no hint in its initial interpretations that it discerned implied limitations on the scope of Section 526." (Gov't Pet. 21a.) The Government says that these regulations "simply paraphrased the statute" (Br. 37 n.44), as if that were to denigrate them as contemporaneous interpretations.[30] It and K mart are reduced to baseless speculation that actual practice may

[30] It would be a peculiar rule of law that held that only an agency regulation that contradicts the plain terms of a statute or qualifies (or expands) them in some way counts as an administrative interpretation.

not have accorded with the published views of the agency. (*Id.*; K mart Br. 32.)

2. ***Subsequent Agency Interpretations Are Inconsistent and Confused.***

a. *The 1936 Regulations*

After 1931, there is neither consistency, validity, nor thoroughness in the agency's approach. In 1936, which is when the history of administrative interpretation begins for petitioners, the Treasury amended two sections of the regulations it had issued in 1931 under Section 526 and Section 27 of the Trade-mark Act of 1905. T.D. 48,537 (1936) (J.A. 27-29). Article 518, which had dealt solely with Section 526, was amended to take account of this Court's *Aldridge* decision of 13 years before (*see* pp. 13, 25, *supra*) and on its face made to deal only with Section 27. *Aldridge* had held that a genuine, identical trademark on goods offered for importation could unlawfully "copy or simulate" a United States trademark under Section 27. Article 518(b) was amended in 1936 to provide that a trade name or trademark on an article of foreign manufacture identical to a United States trade name or trademark "shall be deemed . . . to copy or simulate" the United States trade name or trademark. A marginal citation of *Aldridge* indicated the source of this rule. (J.A. 28.)

A second sentence of Article 518(b) provided, "[h]owever," that if the foreign name or mark and the United States name or mark were owned by "the same person, partnership, association, or corporation," the foreign name or mark should not be "deemed . . . to copy or simulate" the United States name or mark. No explanation was offered for this restriction. As the court below observed, it is doubtful that the restriction (any more than the statement in the first sentence of the *Aldridge* holding) was intended to apply to Section 526 as well as to Section 27. (Gov't Pet. 23a.) It was not necessary to go through the contortion of "deeming" a genuine trademark to "copy" or "simulate" a United States trademark



in order to bring it within Section 526, because Section 526 on its face applies to genuine identical trademarks. The amended Article 518, moreover, (1) applied to all trademarks "protected by the trade-mark laws of the United States," which includes trademarks owned by foreigners entitled to reciprocity, and those trademarks are not protected by Section 526, and (2) applied to trade names, which were dealt with in Section 27 but not in Section 526.[31]

Testimony at hearings on the bill that eventually became the Lanham Trademark Act of 1946 indicated that the 1936 version of Article 518(b) was relevant only to Section 27 and not to Section 526. *See Hearings on H.R. 82 Before the Subcomm. of the Senate Comm. on Patents*, 78th Cong., 2d Sess. 57-105, 141-54 (1944). The Tariff Commission, an agency concerned with the issue,[32] introduced a memorandum that said, referring in particular to the second, "however," sentence of Article 518(b), that it was "obviously addressed to section 27 of the Trade-Mark Act of 1905 in view of the reference to 'copy or simulate,' which expression is used in section 27 but does not appear in section 526 of the tariff act." *Id.* at 86-87. The memorandum added that Section 526 "does apply to the merchandise of the trade-mark owner which bears his trade-mark if the merchandise was produced abroad and if the trade-mark owner is a citizen of the United States." *Id.* at 87. The reason for the same-company qualification of the general rule of the *Aldridge*

[31] Petitioners point out that the statutory authority for the 1936 amendments was stated to include Section 526 as well as Section 27 (J.A. 27), but that is of no significance. Article 522, also amended in 1936, was clearly issued on the authority of Section 526 (J.A. 29), and the statutory citation, given at the beginning of the Treasury Decision, was for the entire amendment.

[32] The Tariff Commission's successor, the International Trade Commission, has decided one of the important cases bearing on the meaning of Section 526 and Section 42 of the Lanham Act, successor to Section 27 of the Trade-mark Act of 1905. Certain Alkaline Batteries, 337-TA-165 (I.T.C. Nov. 5, 1984), *disapproved*, 50 Fed. Reg. 1655 (Jan. 11, 1985).

case under Section 27 was, the memorandum indicated, a conceptual problem with the idea that a person's own identical trademark could "copy or simulate" his United States trademark. *Id.*

b. *Developments in the 1940s and 1950s*

During the 1940s and 1950s, the Customs Service wavered. In 1943, when the relevant regulations were renumbered and recodified, an identical stock set of citations of statutory authority was set out for each section of the regulations in the series. Section 526 therefore became one of the authorities cited for the successor to Article 518, Section 11.14. (J.A. 39.) But Section 526 was also cited as authority for, *e.g.*, Section 11.16, a regulation concerned with recording trade names—a matter quite foreign to Section 526. (*Id.* at 42.)

On the other hand, Section 526 was deliberately and pointedly omitted from the citation of authority for Section 11.14 in 1953 when that section of the regulations was amended to provide that trademarks and trade names owned by related companies as well as those owned by the same company were not to be deemed to "copy or simulate" a genuine United States trademark. T.D. 53,399 (J.A. 56). The Government says that the omission of the citation "was plainly inadvertent." (Br. 38 n.47.) It relies on non-official contemporaneous commentators who did not read the fine print and assumed that the regulations continued to have the authority of Section 526 as well as that of what was now Section 42 of the Lanham Act. We cannot know for sure because on this occasion, as on all the other occasions when it wrote or revised regulations, the Customs Service offered no explanation. But inadvertence is a most unlikely explanation.[33]

[33] A much more likely explanation is a decision that no regulations interpreting Section 526 were necessary or desirable. Not only was Section 526 omitted from every citation of authority (J.A. 56, 57, 58) but also the one substantive reference to Section 526 was deleted (*id.* at 58).



In 1957, the Solicitor General informed this Court that the Customs Service considered itself obligated under Section 526 to protect United States trademark owners affiliated with the owners of identical foreign marks. In *United States* v. *Guerlain, Inc.*, 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded*, 358 U.S. 915 (1958), *dismissed with prejudice*, 172 F. Supp. 107 (S.D.N.Y. 1959), the Government sued three United States trademark owners that imported and distributed French perfumes in this country for alleged violations of the antitrust laws. (*See* pp. 38-40, *supra*.) The district court expressly found that the defendants, affiliates of the French manufacturers of the perfumes that were the owners of the French trademarks, had recorded their trademarks under Section 526 and the Customs Service had excluded "genuine" perfumes sought to be imported without their consent—what would be called gray-market perfumes today. *See* 155 F. Supp. at 90, 93-94, 96-97. The district court, in finding antitrust liability based on this invocation of the statute, interpreted Section 526 as not protecting a United States company that was part of an international enterprise against the importation of the enterprise's identically marked goods. *See id.* at 80. The Antitrust Division had urged this construction.

The trademark owners appealed to this Court. After probable jurisdiction was noted, 355 U.S. 937, 951, the Solicitor General filed a motion asking the Court to vacate the judgment and remand the case to the district court so that the Government could move to dismiss its own case. He said that the Antitrust Division and the Customs Service did not agree with one another on the interpretation of Section 526. He represented to the Court that "the customs authorities of the United States . . . have deemed themselves legally constrained to grant the claim of statutory protection invoked by" the American affiliates of the three French perfume companies.[34]

[34] Guerlain, Inc. v. United States, No. 24 (O.T. 1958), Motion to Vacate Judgments, p. 7.

He said that legislation rather than an antitrust suit was the way to resolve the question and represented that the concerned agencies now agreed on legislation that would be introduced after the lawsuit was dismissed.[35] The Court granted the Solicitor General's motion. (*See* Gov't Br. 39 n.48.)

After the *Guerlain* events, the related companies exception was deleted from the regulations in 1959, as always without any explanation. T.D. 54,932 (J.A. 60). At the same time, Section 526 was again made authority for the regulations.

In addition to published regulations, there is one piece of desk-drawer law that antedates *Guerlain*, a 1951 letter from the Commissioner of Customs to Senator Douglas of Illinois, concerning the importation by a constituent of phonograph records from Canada or England. (J.A. 52-54.) The Commissioner told Senator Douglas that the records could be imported if they were made and trademarked by a foreign subsidiary of the United States trademark owner. It appears that the collector of customs in Chicago was not aware of this rule. Private Customs Service letters after *Guerlain* and the seemingly intentional deletion of "related companies" in 1959 from Section 11.14 indicated that nevertheless parent and subsidiary, even if not all commonly owned or controlled companies, continued to be treated as a single company. (J.A. 62-64.) That did not become the agency's public view until 1968. (P. 48, n.38, *infra.*) The Customs

[35] It is hardly possible, as petitioners contend (Gov't Br. 39 n.48, 47th St. Photo Br. 35 n.23, K mart Br. 35 n.49), that the Solicitor General merely meant that it would be unfair to continue to proceed against the particular *Guerlain* defendants because the Customs Service had unwittingly applied the statute in their favor to bar the gray-market perfume, perhaps unaware of the true nature of their corporate relationships. That explanation does not accord with the necessity of seeking legislation; if a simple mistake had been made, it would have been enough if the Customs Service had vowed to take steps better to inform itself of corporate relationships of trademark recordants.



Service thus may not have paid attention to what exactly its own regulation said. The reliance on private understanding of what the law was makes thoroughly credible the varying treatment accorded to Senator Douglas's record-collecting constituent, on the one hand, and the would-be importers of gray-market French perfume, on the other, as well as the difference in the treatment of the record importer by the collector in Chicago and the Commissioner in Washington.

c. *The 1972 Regulations*

In 1972, the Customs Service adopted the regulations at issue here. 19 C.F.R. § 133.21(c)(1)-(3). (Pp. 4a-5a, *infra.*) Needless to say, neither the notice proposing the regulations, 35 Fed. Reg. 19,269 (Dec. 19, 1970), nor the final notice adopting them, 37 Fed. Reg. 20,677 (Oct. 3, 1972), gave any explanation of the provisions limiting Section 526 and Section 42. However, these regulations finally did state with some precision the circumstances in which the prohibitions of those sections do not apply. The first of the stated exceptions, for the case of ownership of the United States and foreign trademarks by the same company, had applied, according to the published regulations, to Section 42 (or its predecessor, Section 27 of the Trade-mark Act) since 1936 and to Section 526 perhaps from 1943 to 1953 and since 1959.[36] The second, the exception for the case of ownership of the two trademarks by parent and subsidiary or companies under common control, had *never* before applied to Section 526 according to any published regulations and had applied to Section 27 only between 1953

[36] The application to Section 526 is questionable between 1943 and 1953 because of the wholesale invocation of Section 526 as authority for sections of the regulations foreign to it. It is not clear that recordation of trade names (*see* p. 44, *supra*) is any more foreign to Section 526 than deeming genuine identical trademarks or trade names to copy or simulate United States trademarks or trade names.

and 1959.[37] The third exception, for the case in which the foreign trademark is applied with the authorization of the United States trademark owner, was a late addition, never before a part of the regulations and first stated in a Treasury decision in 1968. T.D. 69-12 (J.A. 65).[38]

Later, in what the court below called "yet another curious turn" in Customs' administration of Section 526 (Gov't Pet. 27a), the Customs Service in 1983 repudiated the position set forth in its 1972 regulations. In an amicus curiae brief bearing the name of the chief counsel of the Customs Service as well as that of the Assistant Attorney General in charge of the Antitrust Division, the Government urged the Court of Appeals for the Second Circuit to construe Section 526(a) "in accord with the normal meaning of the statutory language"—that is, without imposing distinctions based on corporate affiliation.[39]

### C. The Customs Service Regulations Are Contrary to Clear Congressional Intent and They Must Be Invalidated On That Ground and, If Not, on the Ground That They Are Not Reasonable Interpretations of the Statute.

The intent of Congress is clear from the words of Section 526, the circumstances surrounding its enactment, and the specifics of its legislative history. The Customs Service's interpretation, which is not even claimed to date

[37] *But see* note 38, *infra*.

[38] The same Treasury Decision stated, without professing to amend the regulations, that a trademark or trade name "on imported foreign-produced merchandise shall not be deemed to copy or simulate a registered trademark or trade name, if the foreign producer is the parent or subsidiary of the American owner or the firms are under a common control." (J.A. 65.)

[39] Brief for the United States as Amicus Curiae, p. 9, Bell & Howell: Mamiya Co. v. Masel Supply Co., 548 F. Supp. 1063 (E.D.N.Y. 1982), *rev'd*, 719 F.2d 42 (2d Cir. 1983). This brief can be found in the joint appendix filed in this case in the court of appeals, pp. 321-42.



from any earlier than 14 years after the statute was first enacted, began, as the court below found, with a set of regulations that "appeared to implement *another* statute" and has not "since that time been supported by anything more than poorly articulated and vacillating reasoning." (Gov't Pet. 28a; emphasis in original.)

In the circumstances, the guiding principle is that of *Chevron U.S.A. Inc.* v. *Natural Resources Defense Council*, 467 U.S. 837, 843 n.9 (1984), quoted this Term in *Cardoza-Fonseca, supra*, 107 S. Ct. at 1221: "The judiciary is the final authority on issues of statutory construction and must reject administrative constructions which are contrary to clear congressional intent." Congressional intent is as clear as can be in this case. A court, "employing traditional tools of statutory construction," can ascertain the intent; the intent relates to "the precise question at issue," and therefore it "is the law and must be given effect." *Id.* Moreover, "[t]he traditional deference courts pay to agency interpretation is not to be applied to alter the clearly expressed intent of Congress." *Dimension Financial Corp., supra*, 474 U.S. at 368.

This is not a case for deference to the agency's interpretation of the statute in any event. In *Cardoza-Fonseca*, the Court declared that the principle of deference to administrative interpretations does not come into play unless there is a "gap left, implicitly or explicitly, by Congress" for the agency to fill in the application of a legal standard to a particular set of facts. 107 S. Ct. at 1221 (*quoting Chevron, supra*, 467 U.S. at 843, and *Morton* v. *Ruiz*, 415 U.S. 199, 231 (1974)). We do not deal here with any gap or with application of law to specific facts. We deal here with the breadth of the legal standard to be applied, a matter, like the meaning of "well-founded" fear of persecution, that is "well within the province of the judiciary." 107 S. Ct. at 1221-22.

Furthermore, the regulations do not represent a reasonable interpretation of the statute, contrary to what the Government maintains in what is apparently its prin-

cipal argument. (Br. 31-36.) The Government's view, stated baldly, is that, because "the legislative history of Section 526 does not explain the statute's scope and purposes in a clear, or even consistent manner" (Br. 32), the Customs Service is entitled to disregard the words of the statute and itself legislate on the basis of chosen themes from the history. That is not the kind of reasonable agency interpretation of a statute that this Court has deferred to. It is rather an unacceptable variant of the old saw: the legislative history is unclear so let us look at the statute. Here the Government says, the legislative history is unclear so ignore the words of the statute and choose what you will from the history.

## V. SUBSEQUENT LEGISLATIVE EVENTS CONFIRM THAT SECTION 526 SHOULD BE INTERPRETED IN ACCORDANCE WITH ITS TERMS.

Petitioners urge this Court to ignore the plain meaning of Section 526, supported by the legislative history of its enactment and reenactment, because Congress has not enacted a law that refutes the interpretation of the statute embodied in the Customs Service's regulations. (Gov't Br. 41-43, 47th St. Photo Br. 36-40, K mart Br. 24-31.) That argument ignores both theory and fact. The theory, at the heart of our system of government, is that the Constitution contemplates rule by enacted law, not by mere silence. The fact is that Congress at least three times has refused to repeal or restrict the scope of Section 526 along the lines of the current Customs regulations and has never indicated its acceptance of those regulations.

### A. Congress Has Acted Inconsistently with the View That It Has Ratified or Acquiesced in the Current Customs Service Interpretation of Section 526.

Congressional ratification of an agency's rulemaking is not to be lightly inferred. This Court has stated that "prolonged and acute awareness" by Congress of an agency's interpretation of a statute is a prerequisite to any imputed ratification. *See Bob Jones University* v. *United



*States*, 461 U.S. 574, 601 (1983). As the court below noted, any less stringent standard would run counter to the constitutionally contemplated scheme of lawmaking. (*See* Gov't Pet. 29a.) Here any congressional "awareness" has been sporadic and necessarily as uncertain as the agency's own shifting and unreasoned position. If anything, Congress can more fairly be said to have rejected the agency's current view than ever to have ratified it.

At least three times Congress has been asked to repeal Section 526 or restrict its scope to something like what the current Customs Service regulations provide.[40] Each time it declined to do so. In 1944, the Department of Justice told the Senate committee considering trademark legislation that Section 526 had been abused to effect divisions of markets. *See Hearings on H.R. 82 Before the Subcomm. of the Senate Comm. on Patents*, 78th Cong., 2d Sess. 68 (1944). Congress declined the implied invitation to do something about it. Though early comprehensive trademark bills would have repealed Section 526 and written severe restrictions on the applicability of a new equivalent of Section 27, in the end Congress left Section 526 alone and simply reenacted Section 27 as Section 42 of the Lanham Act. *See* H.R. 1654, 79th Cong., 1st Sess. § 42 (1945); 60 Stat. 440.

In 1954 Congress was presented with a bill that would have modified Section 526 and in 1959 with a bill that would have repealed it. Neither was enacted. The 1954 bill, H.R. 9476, 83d Cong., 2d Sess. (1954), would have made Section 526 inapplicable when the United States trademark owner was affiliated in any way with the foreign trademark owner. However, that portion of the bill apparently proved controversial and was removed by unanimous consent during the House hearings with the

[40] The Government cites (Br. 41 n.51) two other bills that were not passed, H.R. 7967, 86th Cong., 1st Sess. (1959), and S. 3713, 90th Cong., 2d Sess. (1968). The first dealt exclusively and the second principally with Section 42 of the Lanham Act, although the second would also have repealed Section 526.

concurrence of the Treasury. *See Hearings on H.R. 9476 Before the House Comm. on Ways & Means*, 83d Cong., 2d Sess. 9 (1954). The 1959 bill, H.R. 7234, 86th Cong., 1st Sess. (1959), was the Administration bill that the Solicitor General promised in his motion to vacate the *Guerlain* judgment. (P. 45, *supra.*) The agreed Administration solution was to repeal Section 526 entirely. No hearings were held on the bill, and it was never reported out of committee. The court below said appropriately that "the unsuccessful efforts in 1954 and 1959 to repeal or modify Section 526, if anything, would suggest that Congress *rejected* a narrow view of its scope." (Gov't Pet. 29a; emphasis in original.)

During this same period, Congress, as part of the Revised Organic Act for the Virgin Islands passed in 1954, decreed that neither Section 526 nor Section 42 should apply to the importation into the Virgin Islands of genuine foreign merchandise bearing a genuine foreign mark but should apply only when such merchandise was taken from the Virgin Islands to the mainland United States (or another possession). 48 U.S.C. § 1643. The purpose was to open the Virgin Islands, with their extreme dependence on the tourist trade, to trademarked tourist goods from abroad that apparently were being kept out. *E.g., Hearings on H.R. 2644 Before the House Subcomm. on Territories and Insular Possessions*, 82d Cong., 2d Sess. 13, 20-21, 32-35, 39-40 (1952). While there are instances of wholly independent United States ownership of trademarks identical to those affixed to goods abroad, the instances are not many and it could scarcely have been those few instances that elicited this tourist-development legislation.

### B. Congress Did Not Ratify the Customs Service Interpretation When It Enacted the Personal Consumption or Use Amendment and Has Not Ratified It by Any Subsequent Action.

Congress in 1978 added an exception to both Section 42 and Section 526 for goods imported for personal use or consumption. Customs Procedural Reform and Simplification Act of 1978, 92 Stat. 888. *See* 19 U.S.C. § 1526(d). (P. 2a, *infra.*) The exception was a long time coming. The Wonder Flour colloquy in 1922 suggested the need for it, and the *Sturges* case in 1931 was a reminder. (Pp. 29-30, 31-32, *supra.*) The Customs Service thought it could not create the exception itself, but that only Congress could, itself a lesson for this case. (*See* Gov't Pet. 30a.) When the exception was enacted, Section 526 was not amended in any other way, and there was no consideration of other amendments.



The slim thread by which the petitioners hang their 1978 acquiescence argument is the House committee report on this personal exemption legislation. The Senate committee and the Conference Committee simply paraphrased the statute even though by this time the 1972 regulations were in effect.[41] Each of the petitioners quotes a sentence from the House committee report.[42] The sentence, part of an attempted description of the statute as modified by the 1972 regulations, says that "for the past 20 years" Section 526 had been interpreted by the Customs Service

> "[a]s excluding from protection foreign-produced merchandise bearing a genuine trade-mark created, owned, and registered by a citizen of the United States if the foreign producer has been authorized by the American trademark owner to produce and sell abroad goods bearing the recorded trademark." H.R. Rep. No. 621, 95th Cong., 1st Sess. 27 (1977).

The quoted passage reminds one of petitioners' misreading of Senator Reed's remarks on the Senate floor in 1929 (pp. 34-35, *supra*)—suggesting an exclusion from the protection of Section 526 only of the United States company that authorizes the affixing of a trademark on foreign goods. That is a case far removed from the case of the parent foreign manufacturer and subsidiary United

[41] S. Rep. No. 778, 95th Cong., 2d Sess. 22 (1978); H.R. Rep. No. 1517, 95th Cong., 2d Sess. 16 (1978).

[42] Gov't Br. 42, 47th St. Photo Br. 37, K mart Br. 28.

States distributor that petitioners generally focus on. The committee made a further attempt to describe the statute as limited by the regulations, saying (in a passage not quoted by petitioners) that, "if merchandise bears a genuine trademark created outside the United States the rights to which have been assigned to and recorded by a United States citizen, protection is also granted." *Id.*

The committee thus referred to only the least and latest of the three exceptions in the regulations and then contradicted the regulations by seeming to say that protection was granted to a United States citizen to whom was assigned a trademark created abroad regardless of the relationship between the buyer and the foreign seller. Its garbled description of the regulations is not evidence of ratification of the compelling nature that this Court has required. *See Bob Jones University* v. *United States*, 461 U.S. 574, 599-602 (1983); *Haig* v. *Agee*, 453 U.S. 280, 299 (1981).

The committee report on the bill that became the Trademark Counterfeiting Act of 1984 (Gov't Br. 43,[43] 47th St. Photo Br. 37-38, K mart Br. 29) does not garble the Customs Service regulations, but it is an example of the least reliable kind of post-enactment history: committee reports written or floor remarks made when a disputed matter that divides Congress is in litigation. This Court knows that such history is often created for partisan effect and that what is said will depend on which side which legislator takes. (One need only read Congressman Frenzel's remarks (K mart Br. 30) concerning a 1986 liquor import bill to understand the point.) The 1984 counterfeit legislation did not require any consideration of the terms of Section 526 so that expressions suggesting congressional satisfaction with the Customs Service's regulations are purely gratuitous. There is comparable "history" on respondents' side of

[43] The date of the committee report is 1984 and not 1982, as the citation in the Government's brief indicates (p. 42).



the issue, suggesting the deepest congressional dissatisfaction with the regulations. *See* S. Rep. No. 304, 98th Cong., 1st Sess. 9 (1983); 129 Cong. Rec. S15,742 (daily ed. Nov. 9, 1983); 129 Cong. Rec. S16,731-32 (daily ed. Nov. 17, 1983).

## VI. THE CUSTOMS SERVICE'S REGULATIONS HAVE NEVER BEEN PRESENTED AS MERE ENFORCEMENT GUIDELINES AND CANNOT BE SUSTAINED ON THAT BASIS, NOR SHOULD THEY BE SUSTAINED ON THE NOVEL GROUND THAT GRAY-MARKET IMPORTERS HAVE RELIED ON THEM.

K mart alone among the petitioners argues that, even if Customs' regulations are not a valid interpretation of Section 526(a), they are proper as self-imposed discretionary limitations on agency-initiated enforcement. (Br. 14-15.) The Government has never explained the regulations as that kind of exercise of prosecutorial discretion, and it says in this Court that "[w]e do not believe that the Customs Service regulations should be viewed as based solely on enforcement considerations." (Br. 44 n.53.)

The enforcement guidelines theory derives from *Vivitar, supra*, 761 F.2d at 1569-70. The Federal Circuit held that the regulations did not correctly interpret the statute but sustained them nevertheless as enforcement guidelines. In *Olympus, supra*, 792 F.2d at 320, the Second Circuit followed that ruling.[44] The regulations cannot be so sustained. We believe that, under the statute as it is written, a policy of selective enforcement excluding whole large categories of cases would clearly be "an

[44] The Second Circuit clearly does not regard the regulations as purporting to limit the scope of the statute. *See* Original Appalachian Artwords v. Granada Electronics, Inc., No. 86-7670 (2d Cir. April 7, 1987), slip op. at 2277-78; *see also* Epocha Distributors v. Quality King Distributors, No. 86-2270 (E.D.N.Y. Jan. 20, 1987), slip op. at 2-3.

abdication of [the agency's] statutory responsibilities."[45] But that point need not be decided now.

The decisive fact for now is that the Customs Service has never tried to justify its regulations as an exercise of its enforcement discretion. On the contrary, Customs has consistently maintained that its regulations define the full scope of Section 526(a). Since Customs has never suggested that its challenged regulations rest on a reasoned exercise of any discretion it might have to enforce or not enforce, upholding them on that ground would run afoul of the familiar rule of *SEC* v. *Chenery Corp.*, 318 U.S. 80, 95 (1943): an agency's action "cannot be upheld unless the grounds upon which the agency acted in exercising its powers were those upon which its action can be sustained."[46]

Indeed, because the agency has never purported in its regulations to be doing anything other than defining what goods are covered by the statute, the decisions of the two courts of appeals offend a principle of even longer standing than *Chenery*. The principle is that a reviewing court exhausts its function when it decides issues of law and instructs the agency on the law; it exceeds the proper function of the judiciary when it goes further and makes a decision of policy or discretion that Congress has entrusted to the agency. *Perkins* v. *Elg*, 307 U.S. 325, 349-50 (1939); *FPC* v. *Idaho Power Co.*, 344 U.S. 17, 19-22 (1952); *Sunray Mid-Continent Oil Co.* v. *FPC*, 353 U.S. 944 (1957). To sustain the regulations as enforcement guidelines would be effectively to write new regulations for the agency. If there is discretion to limit enforcement activities so severely as these regulations

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[45] Heckler v. Chaney, 470 U.S. 821, 833 n.4 (1985), *citing* Adams v. Richardson, 480 F.2d 1159 (D.C. Cir. 1973) (*en banc*).

[46] *See also* Motor Vehicle Mfrs. Ass'n v. State Farm Mutual Ins. Co., 463 U.S. 29, 50 (1983) ("[A]n agency's action must be upheld, if at all, on the basis articulated by the agency itself.").



would, the discretion is the agency's, not a reviewing court's.[47]

The Government, while not asserting that the Customs Service has declined (or may decline) to enforce Section 526(a) to its limit, effectively asks this Court to do so in order to maintain what it regards as the status quo. (Br. 43-45.) This argument—that recent commercial activities of gray-market dealers, free-riding on the investments of American companies in their United States trademarks, should be permitted to continue because the burgeoning gray market is the "status quo" and represents "investment-backed reliance"—is novel. It is also without merit. A recent pattern of commercial activity cannot overcome clearly expressed statutory meaning. The cases cited by the Government do not support the proposition that it can. The cases simply observe that the Court may defer to reasonable and longstanding administrative interpretations, relied on by others, when the legislative intent of a statute is not clear.[48] That is not this case.

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[47] One of the stated justifications for the ruling in *Vivitar, supra*, 761 F.2d at 1570, reiterated in *Olympus, supra*, 792 F.2d at 322, is that certain factual issues would arise in the enforcement of Section 526 better suited for judicial than agency resolution. One such issue is suggested by the words elided from our quotation of this Court's *Katzel* opinion at p. 25, *supra*. Justice Holmes said that Bourjois's United States trademark "indicates in law, *and, it is found, by public understanding*" (elided words in italics) as well, that the face powder was its goods. But the court below pointed out that the suggestion that a trademark owner must demonstrate that he has in fact created an independent United States goodwill has no application to Section 526, given its unqualified terms. (Gov't Pet. 14a n.10.) There is no more need, under Section 526, to try the other issues that the court in *Vivitar* indicated might have been tried.

[48] In McLaren v. Fleischer, 256 U.S. 477, 481 (1921), the Court observed that the statute there was "fairly susceptible of different constructions," that the agency's construction of the statute was "reasonable" and was "acted upon for a number of years," before noting in passing that the rule had been relied upon. *Accord*, Zenith Radio Corp. v. United States, 437 U.S. 443, 450-51 (1978).

## CONCLUSION

The decision of the United States Court of Appeals for the District of Columbia should be affirmed.

Respectfully submitted,

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# ADDENDUM

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### Section 526 of the Tariff Act of 1930, 46 Stat. 741, as amended by the Customs Procedural and Simplification Act of 1978, 92 Stat. 888, codified at 19 U.S.C. § 1526

SEC. 526. MERCHANDISE BEARING AMERICAN TRADE-MARK.

(a) Importation Prohibited.—Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trade-mark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent Office by a person domiciled in the United States, under the provisions of the Act entitled "An Act to authorize the registration of trade-marks used in commerce with foreign nations or among the several States or with Indian tribes, and to protect the same," approved February 20, 1905, as amended, and if a copy of the certificate of registration of such trade-mark is filed with the Secretary of the Treasury, in the manner provided in section 27 of such Act, unless written consent of the owner of such trade-mark is produced at the time of making entry.

(b) SEIZURE AND FORFEITURE.—Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

(c) INJUNCTION AND DAMAGES.—Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trade-mark and shall be liable for the same

damages and profits provided for wrongful use of a trade-mark, under the provisions of such Act of February 20, 1905, as amended.

(d) Exemptions.—(1) The trademark provisions of this section and section 42 of the Act of July 5, 1946 (60 Stat. 440; 15 U.S.C. 1124), do not apply to the importation of articles accompanying any person arriving in the United States when such articles are for his personal use and not for sale if (A) such articles are within the limits of types and quantities determined by the Secretary pursuant to paragraph (2) of this subsection, and (B) such person has not been granted an exemption under this subsection within thirty days immediately preceding his arrival.

(2) The Secretary shall determine and publish in the Federal Register lists of the types of articles and the quantities of each which shall be entitled to the exemption provided by this subsection. In determining such quantities of particular types of trade-marked articles, the Secretary shall give such consideration as he deems necessary to the numbers of such articles usually purchased at retail for personal use.

(3) If any article which has been exempted from the restrictions on importation of the trade-mark laws under this subsection is sold within one year after the date of importation, such article, or its value (to be recovered from the importer), is subject to forfeiture. A sale pursuant to a judicial order or in liquidation of the estate of a decedent is not subject to the provisions of this paragraph.

(4) The Secretary may prescribe such rules and regulations as may be necessary to carry out the provisions of this subsection.

(e) Any such merchandise bearing a counterfeit mark (within the meaning of section 45 of the Act of July 5, 1946 (commonly referred to as the Lanham Act, 60 Stat.



427; 15 U.S.C. 1127)-) imported into the United States in violation of the provisions of section 42 of the Act of July 5, 1946 (60 Stat. 440; 15 U.S.C. 1124), shall be seized and, in the absence of the written consent of the trademark owner, forfeited for violations of the customs laws. Upon seizure of such merchandise, the Secretary shall notify the owner of the trade-mark, and shall, after forfeiture, obliterate the trademark where feasible and dispose of the goods seized—

(1) by delivery to such Federal, State, and local government agencies as in the opinion of the Secretary have a need for such merchandise,

(2) by gift to such eleemosynary institutions as in the opinion of the Secretary have a need for such merchandise,

(3) more than 1 year after the date of forfeiture, by sale by appropriate customs officers at public auction under such regulations as the Secretary prescribes, except that before making any such sale the Secretary shall determine that no Federal, State, or local government agency or eleemosynary institution has established a need for such merchandise under paragraph (1) or (2), or

(4) if the merchandise is unsafe or a hazard to health, by destruction.

## 19 C.F.R. § 133.21

### § 133.21 Restrictions on importation of articles bearing recorded trademarks and trade names.

(a) *Copying or simulating marks or names.* Articles of foreign or domestic manufacture bearing a mark or name copying or simulating a recorded trademark or trade name shall be denied entry and are subject to forfeiture as prohibited importations. A "copying or simulating" mark or name is an actual counterfeit of the recorded mark or name or is one which so resembles it as to be likely to cause the public to associate the copying or simulating mark with the recorded mark or name.

(b) *Identical trademark.* Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.

(c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:

(1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;

(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§ 133.2(d) and 133.12(d));

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner;

(4) The objectionable mark is removed or obliterated prior to importation in such a manner as to be illegible and incapable of being reconstituted, for example by:



(i) Grinding off imprinted trade-marks wherever they appear;

(ii) Removing and disposing of plates bearing a trademark or trade name;

(5) The merchandise is imported by the recordant of the trademark or trade name or his designate;

(6) The recordant gives written consent to an importation of articles otherwise subject to the restrictions set forth in paragraphs (a) and (b) of this section, and such consent is furnished to appropriate Customs officials; or

(7) The articles of foreign manufacture bear a recorded trademark and the personal exemption is claimed and allowed under § 148.55 of this chapter.

(d) *Exceptions for articles bearing counterfeit trademarks.* The provisions of paragraph (c)(4) of this section are not applicable to articles bearing counterfeit trademarks at the time of importation (see § 133.24).

(Sec. 42, 60 Stat. 440, sec. 526, 46 Stat. 741; 15 U.S.C. 1124, 19 U.S.C. 1526)

[T.D. 72-266, 37 FR 20678, Oct. 3, 1972, as amended by T.D. 79-159, 44 FR 31968, June 4, 1979]

28 U.S.C. § 1331

**§ 1331. Federal question**

The district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States.

28 U.S.C. § 1338(a)

**§ 1338. Patents, plant variety protection, copyrights, trade-marks, and unfair competition**

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

**Section 39 of the Lanham Trademark Act of 1946, 15 U.S.C. § 1121**

**§ 1121. Jurisdiction of Federal courts**

The district and territorial courts of the United States shall have original jurisdiction and the courts of appeal of the United States (other than the United States Court of Appeals for the Federal Circuit) shall have appellate jurisdiction, of all actions arising under this chapter, without regard to the amount in controversy or to diversity or lack of diversity of the citizenship of the parties.



28 U.S.C. § 1581

**§ 1581. Civil actions against the United States and agencies and officers thereof**

(a) The Court of International Trade shall have exclusive jurisdiction of any civil action commenced to contest the denial of a protest, in whole or in part, under section 515 of the Tariff Act of 1930.

(b) The Court of International Trade shall have exclusive jurisdiction of any civil action commenced under section 516 of the Tariff Act of 1930.

(c) The Court of International Trade shall have exclusive jurisdiction of any civil action commenced under section 516A of the Tariff Act of 1930.

(d) The Court of International Trade shall have exclusive jurisdiction of any civil action commenced to review—

(1) any final determination of the Secretary of Labor under section 223 of the Trade Act of 1974 with respect to the eligibility of workers for adjustment assistance under such Act;

(2) any final determination of the Secretary of Commerce under section 251 of the Trade Act of 1974 with respect to the eligibility of a firm for adjustment assistance under such Act; and

(3) any final determination of the Secretary of Commerce under section 271 of the Trade Act of 1974 with respect to the eligibility of a community for adjustment assistance under such Act.

(e) The Court of International Trade shall have exclusive jurisdiction of any civil action commenced to review any final determination of the Secretary of the Treasury under section 305(b)(1) of the Trade Agreements Act of 1979.

(f) The Court of International Trade shall have exclusive jurisdiction of any civil action involving an application for an order directing the administering authority or the International Trade Commission to make confidential information available under section 777(c)(2) of the Tariff Act of 1930.

(g) The Court of International Trade shall have exclusive jurisdiction of any civil action commenced to review—

(1) any decision of the Secretary of the Treasury to deny or revoke a customhouse broker's license under section 641(a) of the Tariff Act of 1930; and

(2) any order of the Secretary of the Treasury to revoke or suspend a customhouse broker's license under section 641(b) of the Tariff Act of 1930.

(h) The Court of International Trade shall have exclusive jurisdiction of any civil action commenced to review, prior to the importation of the goods involved, a ruling issued by the Secretary of the Treasury, or a refusal to issue or change such a ruling, relating to classification, valuation, rate of duty, marking, restricted merchandise, entry requirements, drawbacks, vessel repairs, or similar matters, but only if the party commencing the civil action demonstrates to the court that he would be irreparably harmed unless given an opportunity to obtain judicial review prior to such importation.

(i) In addition to the jurisdiction conferred upon the Court of International Trade by subsections (a)-(h) of this section and subject to the exception set forth in subsection (j) of this section, the Court of International Trade shall have exclusive jurisdiction of any civil action commenced against the United States, its agencies, or its officers, that arises out of any law of the United States providing for—



(1) revenue from imports or tonnage;

(2) tariffs, duties, fees, or other taxes on the importation of merchandise for reasons other than the raising of revenue;

(3) embargoes or other quantitative restrictions on the importation of merchandise for reasons other than the protection of the public health or safety; or

(4) administration and enforcement with respect to the matters referred to in paragraphs (1)-(3) of this subsection and subsections (a)-(h) of this section.

(j) The Court of International Trade shall not have jurisdiction of any civil action arising under section 305 of the Tariff Act of 1930.

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Avon Products, Inc.
Baccarat, Inc.
Brown & Company, Inc.
Calvin Klein Cosmetics Corp.
Canon U.S.A., Inc.
Cartier, Inc.
Charles of the Ritz Group, Ltd.
Citizen Watch Company of America, Inc.
Colonia Inc.
Compar, Inc.
Computer Retail Trade Association
Cosmair, Inc.
Dennis Time Company
Dial Corporation/Greyhound Corp.
Diodon, Inc.
Distilled Spirits Council of the U.S., Inc.
Duracell Inc.
Electronic Industries Association/Consumer Electronics Group
E. Leitz, Inc.
Elizabeth Arden, Inc.
Estee Lauder Inc.
Georgio, Inc., Perfume Division
G-K-G Inc.
G.M.I. Photographic Inc.
Halston Fragrances, Inc.
Joseph E. Seagram & Sons, Inc.
Maier & Berkele
Mimco
Minolta Corporation
Moet-Hennessy U.S. Corporation



National Association of Beverage Importers, Inc.
Nikon Inc.
North American Watch Corporation
NETCO
Omichron Corporation
P. Robertet, Inc.
Parfums Givenchy, Inc.
Parfums Stern Inc.
Parfums Worth Corp.
Pentax Corporation
PepsiCo
PFW, Division of Hercules, Inc.
Photographic Manufacturers and Distributors Association, Inc.
Photographic Trade News
Polaris Optics
Procter & Gamble Company
Revlon, Inc.
Richardson-Vicks Inc.
Schneider Corporation of America
Seiko Time Corporation/Hattori Corporation of America
Sinar Bron, Inc.
Sony Corporation of America
Stanhill Enterprises, Inc.
Tessler & Company, Inc.
Texchron Inc.
The Wilkes Group Inc.
Tokina Optical Corporation
Victor Hasselblad Inc.
Warner Cosmetics Incorporated
Weil Ceramics & Glass, Inc.
Whitbread North America, Inc.

# REPLY BRIEF

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Supreme Court, U.S.
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Nos. 86-495, 86-624 and 86-625

# In the Supreme Court of the United States

OCTOBER TERM, 1987

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K MART CORPORATION, PETITIONER

*v.*

CARTIER, INC., ET AL.

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47TH STREET PHOTO, INC., PETITIONER

*v.*

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.

---

UNITED STATES OF AMERICA, ET AL., PETITIONERS

*v.*

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.

---

*ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT*

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**REPLY BRIEF FOR THE FEDERAL PETITIONERS**

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## TABLE OF CONTENTS



## TABLE OF AUTHORITIES

Cases:

# In the Supreme Court of the United States

OCTOBER TERM, 1987

---

No. 86-495

K MART CORPORATION, PETITIONER

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*ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT*

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**REPLY BRIEF FOR THE FEDERAL PETITIONERS**

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In our opening brief, we demonstrated that the Treasury Department has reasonably interpreted Section 526, 19 U.S.C. 1526, to protect a U.S. trademark owner against importation of foreign-made goods bearing its trademark applied by an unrelated person without its consent – and *not* to protect a multinational enterprise against importa-

tion of its own goods into the United States for sale in competition with its preferred distribution arrangements. Respondents strive mightily to obscure this basic distinction between two quite different classes of cases, but it is consistent with the language of the statute and strongly supported by its legislative history, and it has been recognized by the Treasury Department for more than half a century.

### A. The Treasury Regulation Is Consistent With The Language Of Section 526

This case is not disposed of by "plain language." The words of Section 526 are, as respondents contend (Br. 19), straight forward. But so are the words "Sleeping in this railway station is prohibited." And just as a court may legitimately inquire whether a passenger who falls asleep while waiting for his train has committed a misdemeanor within the meaning of the railway station ordinance,[1] so a court or agency may inquire whether Congress, when it prohibited importation of goods bearing a U.S. trademark without the U.S. owner's consent, meant to reach the case where the trademark was applied by the U.S. owner itself, or by its affiliate, or with its authorization.

In urging that Section 526 has been reasonably construed not to apply in a class of cases it might literally be read to reach, we are not, as respondents suggest (Br. 22), seeking to give plain words an "uncommon meaning." The Treasury regulation applies the plain words quite straightforwardly to bar importation in the class of cases with which Congress was explicitly concerned. It then refuses to apply them to a quite different class of cases that, in context, there is not the slightest reason to think Congress wanted to reach. That kind of decision, after an

[1] The example is drawn from Fuller, *Positivism and Fidelity to Law—A Reply to Professor Hart*, 71 Harv. L. Rev. 630, 664 (1958).



examination of "the provisions of the whole law, and * * * its object and policy" (*Pilot Life Ins. Co.* v. *Dedeaux*, No. 85-1043 (Apr. 6, 1987) slip op. 10 (quoting earlier cases)), to interpret a statute as not encompassing every case its words might literally cover, is commonplace.[2]

In particular, a case may be within a plausible literal reading of a statute, but beyond its proper reach, where the relationship between two corporations changes the situation into one Congress did not intend to cover. In *Copperweld Corp.* v. *Independence Tube Corp.*, 467 U.S. 752 (1984), the issue was whether Section 1 of the Sherman Act (15 U.S.C. 1) is applicable to an alleged conspiracy between parent and subsidiary. The resolution of this issue, the Court said, should depend not on "whether the term 'conspiracy' will bear a literal construction that includes parent corporations and their wholly owned sub-

[2] See U.S. Br. 11-14 & n.14. The principle is as old as *Heydon's Case*, 3 Co. Rep. 7a, 76 Eng. Rep. 637 (K. B. Div. 1584) (Coke, J.), and is no less vital today. For example, this Court recently held in *California Federal Savings & Loan Ass'n* v. *Guerra*, No. 85-494 (Jan. 13, 1987), that a statute providing that pregnant women "shall be treated the *same* [as other persons] for all employment-related purposes" (42 U.S.C. 2000e(k) (emphasis added)) does not forbid special leave and reinstatement allowances. The Court explained that this narrowing interpretation is appropriate when the statutory langauge is examined "against the background of its legislative history and historical context" (slip op. 10). See note 7, *infra*. The Court held in *O'Connor* v. *United States*, No. 85-558 (Nov. 4, 1986), that a treaty exempting Panama Canal Commission employees from "*any* taxes * * * on income received as a result of their work for the Commission" (slip op. 2 (emphasis added)) does not exempt them from U.S. income taxation, citing "the contextual case" for ascribing a limited meaning to the language (*id.* at 4). In *United Housing Foundation, Inc.* v. *Forman*, 421 U.S. 837, 848 (1975), the Court refused to treat "stock" in a cooperative housing project as a "security" for purposes of the Securities Act of 1933 and the Securities Exchange Act of 1934 even though both statutes' definitions of "security" include "stock"; instead the Court construed the term "security", and hence the application of the two acts, in accordance with their purposes.

sidiaries" but on whether the "logic underlying Congress' decision to exempt unilateral conduct" (467 U.S. at 776) suggested that the statute should apply in such a case.[3] So here, the question is not whether Section 526 will bear a literal construction that would exclude the goods at issue but whether it was permissible for Treasury, charged with responsibility "to make such rules and regulations as may be necessary to carry out [the Tariff Act]" (19 U.S.C. 1624), to construe the statute as not reaching a class of cases there is no evidence Congress intended to reach.[4]

[3] The Court refused to make " 'an artificial distinction' at the expense of substance" (467 U.S. at 763 (citation omitted)) and observed that "in reality a parent and a wholly owned subsidiary *always* have a 'unity of purpose or a common design' " (*id.* at 771 (emphasis in the original, citation omitted)). "They share a common purpose whether or not the parent keeps a tight rein over the subsidiary; the parent may assert full control at any moment if the subsidiary fails to act in the parent's best interests" (*id.* at 771-772 (footnote omitted)).

[4] An agency's determination to construe a statute—and its own authority—more narrowly than an alternative construction the words might literally bear obviously presents quite a different issue than respondents' favorite "plain language" precedent, *Board of Governors* v. *Dimension Financial Corp.*, No. 84-1274 (Jan. 22, 1986). See Resp. Br. 20, 49. In that case, the United States filed an amicus brief opposing a Federal Reserve Board interpretation that would "expand its jurisdiction beyond the boundaries established by Congress" (slip op. 12 n.6). Here there is no danger that, in respecting Treasury's longstanding judgment as to what Congress intended, a court would award Treasury wider power than Congress intended it to have. *Dimension*, of course, involved technical language ("deposits that the depositor has a legal right to withdraw on demand") that the legislative history (recited at slip op. 4) showed had been deliberately adopted to alter the rule (withdrawable "in actual practice" (*ibid.*)) that the agency had nevertheless sought to reimpose.

*Amoco Production Co.* v. *Village of Gambell*, No. 85-1239 (Mar. 24, 1987), also stressed by respondents (Br. 19), likewise involved a rejection by this Court *not* of a narrowing construction intended to reflect congressional intent but of an expansion of the reach of federal regulation beyond what Congress's words would bear. Moreover, the Court noted three times that the words in question ("situated in Alaska") had a "precise" meaning (slip op. 14, 15 & n.14) that the court of appeals had simply jettisoned. Even so, the Court examined the words in "the context of the Act as a whole" (*id.* at 16), and reviewed the legislative history, finding no evidence of an intention different from the "precise" meaning.



The Treasury regulation at issue reflects a basic distinction that flows through all of trademark law: a trademark owner has the right to prevent others from using his mark on *their* goods but does not have the right, merely by virtue of owning the mark, to limit the resale of his *own* goods once he has put them into commerce.[5] Accordingly, the regulation interprets Section 526 as not applying where the U.S. trademark owner, although literally a "corporation or association created or organized within the United States" (19 U.S.C. 1526(a)), bears a specified relationship to the person who owns the trademark applied to the foreign-made goods (namely, that they are the same entity, or subject to common ownership or control, or the mark is applied with the authorization of the trademark owner).

The regulation interprets the statute as protecting a U.S. person who has acquired a trademark against imports of goods to which the same mark has been applied without his permission or involvement: the U.S. owner was already protected by Section 27 of the Trademark Act of 1905, ch. 592, 33 Stat. 730, against any "simulation" of his mark, but the Second Circuit had just held in *A. Bourjois & Co.* v. *Katzel*, 275 F. 539 (1921), that a mark held by an unrelated French company and lawfully applied in France could not infringe the U.S. owner's rights. As Judge

[5] See, *e.g.*, *Prestonettes, Inc.* v. *Coty*, 264 U.S. 359, 368-369 (1924); *Champion Spark Plug Co.* v. *Sanders*, 331 U.S. 125 128-130 (1947). Judge Sneed recently explained this principle and its relationship to parallel importation in *NEC Electronics* v. *Cal Circuit Abco*, 810 F.2d 1506, 1509-1510 (9th Cir. 1987). See generally 3A R. Callman, *The Law of Unfair Competition, Trademarks, and Monopolies* § 21.13, at 62 (L. Altman 4th ed. 1983 & Supp. 1987).

Learned Hand, a distinguished student of intellectual property matters, said at the time, Section 526(a) "was intended only to supply the casus omissus, supposed to exist in section 27" (*Coty, Inc.* v. *Le Blume Import Co.*, 292 F. 264, 268-269 (S.D.N.Y. 1923)).

The regulation interprets the statute as not giving the U.S. trademark owner the right to bar entry of goods it itself, or its affiliate, has trademarked and placed in foreign commerce. That would go well beyond the "casus omissus" and place public enforcement machinery behind the efforts of a multinational enterprise to confer exclusive U.S. distribution rights on one of its components. Contrary to respondents' confusing suggestion (Br. 21), neither the regulation nor our argument depends on any broad distinction between a multinational enterprise headed by a U.S. firm and one headed by a foreign firm: to take their example, there is not the slightest evidence that Congress wanted to give "General Motors" (*ibid.*) the right to manufacture cars abroad, apply its own trademarks to them, and then, by the very act of applying those marks, deny U.S. consumers access to the foreign-manufactured cars.[6]

[6] The foreign ownership paradigm is, of course, the one on which this case has focused. As the court of appeals noted (Pet. App. 1a), the present issue "typically arises when a foreign producer creates an American subsidiary that then registers the American trademark." Indeed, two of the named respondents, Cartier, Inc. and Charles of the Ritz, Ltd., are wholly owned domestic subsidiaries of foreign corporations. See Resp. Br. ii. The third respondent, COPIAT, is a trade organization established to promote the trademark interests of multinational entities. See Resp. Br. Addendum 10a-11a (listing members).

We do not suggest that it is improper for a multinational enterprise to attempt, by differences in products, distinctive labeling, or contractual arrangements, to prevent the flow of goods intended for foreign markets into the United States. The issue in this case is simply whether the Treasury Department has properly construed Section 526 as not giving them an additional resource for doing so.



**B. The Legislative History of Section 526 Strongly Supports Treasury's Intepretation**

When one reads Section 526 in the context of its purpose and history, Congress's intentions and the consequent reasonableness of the Treasury Department's regulation become apparent. As we explained in our opening brief (at 13-14) and respondents are obliged to concede (Resp. Br. 25), Congress enacted Section 526 as a hastily drafted reaction to the Second Circuit's decision in *A. Bourjois & Co.* v. *Katzel*, 275 F. 539 (1921), rev'g 274 F. 856 (S.D.N.Y. 1920), rev'd, 260 U.S. 689 (1923). Its only stated purpose was to reverse that decision and give protection to the plainly legitimate expectations of U.S. firms that, like Bourjois, have acquired U.S. trademark rights from a foreign manufacturer. There is no evidence that Congress intended, nor any reason why Congress would have wanted, to confer on a foreign manufacturer (or a U.S. manufacturer with a foreign subsidiary) government assistance in keeping its own goods out of the United States. Compare *California Federal Savings & Loan Ass'n* v. *Guerra, supra.*[7]

[7] As we explained in our opening brief (at 13-14), this case is remarkably similar to *Guerra*. In both cases, Congress enacted broadly worded legislation in response to a particular judicial precedent; here, as there, the statutory words should be read against that background and in light of Congress's objectives. But this case seems to us much the easier: the statutory words involved in *Guerra* were more nearly directed to the precise question at issue – comparability of treatment of employees – than the words of Section 526 are to the issue of parallel importation of the goods of a multinational enterprise.

Respondents cannot challenge the principle, stated once again in *Guerra*, that " 'a thing may be within the letter of the statute and yet not within the statute, because not within its spirit, nor within the intention of its makers' " (slip op. 10-11, quoting earlier cases). Instead, they argue (Resp. Br. 36) that *Guerra* involved clearer legislative history. But in fact the cases are quite similar (and *Guerra* is the

Respondents do not seriously contend that Congress intended to assist transnational enterprises in sealing the U.S. border against their own foreign-manufactured goods. Instead, respondents argue that the purpose of Section 526 was a " 'sweeping rejection of prevailing legal doctrine' * * * in favor of territorial protection of a United States-owned and registered trademark" (Resp. Br. 26 (quoting Pet. App. 15a)). There are two things wrong with that theory.

First, even if respondents were correct that Congress in 1922 embraced the "territoriality" theory of trademark – the theory that "the source and scope of trademark protection arise from the law of a particular sovereign state" (Pet. App. 13a) – that would not answer the question in this case. No one contends that the goods in question here are not excludable simply because the mark they bear states their origin "accurately" in some abstract sense. Everyone agrees that the rights of the U.S. trademark owner arise from, and only from, U.S. positive law. The question is whether the rights Section 526 affords to a U.S. trademark owner include the right to exclude goods bearing a trademark it itself (or its affiliate) applied to them. The territoriality theory, which says nothing about how any particular sovereign should treat the relationship between the particular entity that owns the mark and its parents or subsidiaries, does not answer that question.[8]

harder case) on that point as well: in *Guerra*, there was clear evidence of what Congress *did* want to do, but the Court's conclusion that Congress did *not* intend to reach an additional class of cases the statute might literally cover was based (see slip op. 11-16) on the absence of evidence of such intent and on inferences from circumstances; here, as we argued in our opening brief (at 14, 29), the inference is a good deal stronger that the 1922 Congress did not intend, without saying so, to give multinational enterprises an additional weapon to enforce exclusive U.S. distribution arrangements.

[8] As we noted in our opening brief (at 16), the Second Circuit's *Katzel* decision did deny excludability because the mark on the imported goods identified their origin "accurately" in an abstract sense. But our argument in this case does not rest on any such contention, nor is this Court's subsequent opinion in *Katzel*, which did not mention Section 526, in any way inconsistent with our position in this case. This Court's finding of trademark infringement in *Katzel* rested squarely on the finding that, under U.S. trademark law and the facts of that case, the mark indicated that the goods came from the U.S. plaintiff and *not* from the unrelated French firm. 260 U.S. at 692. Justice Holmes made that clear the following year in *Prestonettes, Inc.* v. *Coty*, 264 U.S. 359, 368 (1924). Neither the "territoriality theory" nor the opinion in *Katzel* says anything about the effect on the rights of a U.S. trademark owner, under U.S. law, of actions taken abroad, by itself or other members of its corporate family, with respect to goods that later enter the United States. In particular, neither the territoriality theory nor *Katzel* suggests in any way that the members of a multinational family of corporations are entitled to be treated for trademark purposes as if they were unrelated. See, *e.g.*, *NEC Electronics* v. *Cal Circuit Abco*, 810 F.2d 1506 (9th Cir. 1987).



Second, there is no evidence whatever that Congress thought it was adopting anything more than a narrow import-exclusion measure to protect American firms in the *Katzel* situation. Section 526, by its terms, deals with imports. It does not adopt, reject, or redefine trademark principles of any kind. There is no mention whatsoever in the statute or anywhere in its legislative history of the respondents' "territoriality" doctrine. Instead (as we detail in our opening brief, at 16-31), the legislative record repeatedly demonstrates that Congress enacted Section 526 to protect a U.S. firm that has purchased U.S. trademark rights from a foreign manufacturer and then encounters competition from importers of identically marked goods.[9]

[9] For example, the House Conference Report specifically alludes to the Second Circuit's *Katzel* decision and states that the provision "makes such importation unlawful" (H.R. Conf. Rep. 1223, 67th Cong., 2d Sess. 158 (1922)). See U.S. Br. 17, 27-28. And the legislation's sponsors repeatedly explained that Section 526 was meant to serve the narrow purpose "of protecting the property rights of American citizens who have purchased trade-marks from foreigners"

Lacking any evidence at all that Congress intended to give them the benefit they now seek, respondents assert grandly that the "broad meaning of Section 526 is confirmed by the historical context in which it was enacted" (Resp. Br. 24). But the chief element of their "historical context" turns out to be the fact that this Court reversed the Second Circuit's decision in *Katzel* and "adopted what is known as the 'territoriality' theory of trademarks" (*id.* at 24-25). Since the adoption of Section 526 preceded this Court's decision in *Katzel*, Congress obviously was not ratifying that decision. More important, as we have just explained, see pages 8-9, *supra*, neither this Court's decision in *Katzel* nor the "territoriality" theory answers the question in this case, which is whether Section 526 *gives* the U.S. trademark owner the right to exclude goods to which it itself, or its affiliate, has applied its trademark.

Respondents also attempt to rewrite the legislative record. They first contend that the Conference Committee, though discussing the court of appeals' *Katzel* decision in the import exclusion context, actually selected the case as its "vehicle" for destroying the "doctrine of universality" (Resp. Br. 26-27). But the Conference report – like the rest of the legislative history – contains no discussion of trademark concepts and makes not the slightest mention of respondents' "universality" and "territoriality" doctrines. To the contrary, the report quite plainly recognizes that the question in *Katzel* was whether Bourjois could "prevent the importation"(H.R. Conf. Rep. 1223, *supra*, at 158) of Katzel's merchandise. The report explains that Section 526 "makes such importation unlawful" in order to "protect the American manufacturer

(62 Cong. Rec. 11603 (1922) (Sen. Sutherland)). This point was repeated, literally or in substance, no less than eight times by four different senators in the course of a ten-minute debate. See U.S. Br. 18-20 & nn. 23-24.



or producer" (*ibid.*). The report shows no intention whatsoever to redefine the character or concept of a trademark.[10]

Respondents' attempt to explain the 1922 legislative debate fares no better. Respondents acknowledge that the sponsors of Section 526 described the statute as having very limited objectives, but they contend that these statements should be disbelieved (Resp. Br. 28). Respondents suggest that the sponsors did not give their Senate colleagues an honest description of their amendment but instead "naturally tried 'to understate its significance' " (*ibid.*) and "went so far as to blur one of the targets" (*ibid.*). Respondents simply refuse to take the sponsors at their word (*id.* at 29-31). The resulting arguments are, in any event, unconvincing.[11]

[10] Respondents also discount (Br. 27) the Conference report's express statement that Section 526 would protect the "American manufacturer or producer" (H.R. Conf. Rep. 1223, *supra*, at 158) because Bourjois (though wholly American) was not a manufacturer or producer. One may debate whether Bourjois was a manufacturer or producer; it hardly matters, given that other wholly American companies that Congress intended to protect (such as the American purchaser of the Bayer trademark (62 Cong. Rec. 11604 (1922)) certainly were. What remains crystal clear is that the Conference Committee wanted to protect American firms against importation of goods bearing their trademarks applied by unrelated persons without their consent, and gave no evidence of wanting to protect transnational enterprises against importation of their own goods.

[11] Indeed, respondents' arguments support our submission that Congress meant to address the *Katzel* situation, and had no intention that Section 526 would be applied outside of the case of a U.S. trademark owner seeking to exclude goods bearing his mark applied by an unrelated person without his consent. For example, respondents concede that the "Wonder Flour" colloquy demonstrates that the sponsors "had apparently not considered" the application of Section 526 in that situation (Resp. Br. 29). That is our very point. As we explained in our opening brief (at 20 n.24), the sponsors' prompt revision of

As we said in our opening brief, the 1929 debate "says little about the perceived scope of Section 526, and what it does say further confuses the picture" (U.S. Br. 25; see *id.* at 29-31). Respondents try (Br. 32-36) to glean significance from the debate about the ultimately rejected amendment that would have deleted the consent clause, but it proves almost nothing. First, as respondents acknowledge, Congress ultimately reenacted Section 526 without change, so the question remains what Congress intended in 1922, not 1929. Second, the Senators who discussed the proposed amendment were not concerned *either* with protecting independent U.S. trademark owners in the *Katzel* situation *or* with assisting multinational corporations to seal off the U.S. market (an objective for which there is not the slightest hint of congressional desire). They were concerned with an entirely different objective, essentially unrelated to trademark protection, for which (as Congress ultimately decided) Section 526 was a wholly unsuitable vehicle: discouraging U.S. companies from locating

Section 526 in response to the suggestion that Section 526 might be employed in a non-*Katzel* situation demonstrates the sponsors' limited objectives.

As another example, respondents acknowledge that the Lenroot-McCumber colloquy reveals that the sponsors did not intend to extend special benefits to a " 'foreigner' " who owns and registers the U.S. trademark; they intended that Section 526 would apply only when the trademark is " '*owned exclusively* by an American firm or corporation' " (Resp. Br. 30 (emphasis added), quoting Pet. App. 18a, which is turn quotes Senator McCumber)). Once again, respondents have made our point. This protectionist Congress obviously was interested only in granting import exclusion privileges to wholly domestic interests. See U.S. Br. 20-23, 28-29. Indeed, if (as respondents earlier argued) the sponsors were attempting to redefine trademark infringement concepts, their distinctions between foreign and domestic companies would be inconsistent with existing treaties and statutes, which, then as now, gave foreign and domestic trademark owners equal protection from infringement. See Convention of the Union of Paris for the Protection of Industrial Property, June 2, 1911, art. 2, 38 Stat. 1660-1661; 15 U.S.C. 1051; U.S. Br. 12 n.13.



manufacturing plants abroad. Third, it is at best not clear whether Senator Reed and others who participated in the debate, not focusing on the intricacies of the protection of trademark owners but apparently expecting to seize on existing Section 526 and use it for their purposes, believed the section as it stood barred a multinational firm from importing its own goods unless it went through the formality of consenting in writing to its own importation.[12] It is certainly more consistent with what Senator Reed actually said (existing Section 526 protects the American trademark owner "against importations of articles which have been stamped with his mark without his consent" (71 Cong. Rec. 3873 (1929)) to conclude, as we suggested in our opening brief, that he expected only that a barrier to entry would arise as a consequence of his ultimately rejected proposal. The important point remains: while the Hawley-Smoot Congress most certainly did want to erect barriers to importation of foreign-manufactured goods, there is no evidence that anyone in Congress in 1929, any more than in 1922, wanted to give transnational enterprises a new weapon that they could use to prevent competition with their authorized distribution systems.

### C. The Treasury Department's Regulation is a Reasonable Interpretation of Section 526

As we explained in our opening brief (at 31-36), the Treasury Department promulgated the regulation at issue to ensure that Section 526 is applied in accordance with Congress's objectives. Respondents reply that Treasury lacks authority to promulgate such regulations (Resp. Br. 37) and, alternatively, that the regulation here is invalid

[12] We can find no statement by Senator Reed that American companies that manufactured goods overseas were compelled to rely on Section 526's consent clause to import their own trademarked goods. Respondents' assertion (Br. 33) that Senator Reed held that view is their inference.

because it does not conform to the literal terms of the statute (*id.* at 48-50). Both contentions are incorrect.

As we have explained (U.S. Br. 31), Congress has expressly empowered the Treasury Department, through Section 624, to "make such rules and regulations as may be necessary to carry out the provisions of this chapter." 19 U.S.C. 1624. Respondents concede this authority (Resp. Br. 37-38), but argue that it does not permit Treasury to enact rules explaining how Section 526 should be applied.[13] But the authority to adopt regulations "necessary to carry out" Section 526 plainly includes the power to list the cases to which, in the agency's judgment, the statute does and does not apply, and to revise the list in response to new circumstances and the experience gained in the course of applying the statute: Treasury has no choice but to interpret the statute whenever new situations, beyond Congress's express contemplation, are presented. Respondents' contention that Section 526 does not "invite agency interpretation" (Resp. Br. 37) misconceives the issue: even in the absence of an express or implied delegation of policy-making authority, when an expert agency is charged with administering a statute, its interpretation of Congress's intentions, based in part on its more-than-ordinary knowledge of the subject matter, is entitled to deference. *Chevron U.S.A. Inc.* v. *Natural Resources Defense Council, Inc.*, 467 U.S. 837, 844 (1984).

The real question here is whether Treasury's present regulation is a "reasonable" interpretation of Section 526. *Chevron U.S.A. Inc.*, 467 U.S. at 845. As we have explained (U.S. Br. 31-36), the regulation amply satisfies the

[13] Respondents consistently refer to the *Customs Service's* authority to promulgate regulations (see, *e.g.*, Resp. Br. 37, 38, 39). Section 624 expressly delegates authority to "the Secretary of the Treasury" and the Treasury Department has retained authority over the exercise of that power. See U.S. Br. 31 n.37.



*Chevron* standard. It is clear from the legislative materials that: (1) Congress wished to protect U.S. trademark owners against importation of goods bearing their marks applied by unrelated persons without their consent (see U.S. Br. 18-20); and (2) Congress expressed no desire (and had no reason to wish) to assist multinational enterprises in keeping their own goods out of the U.S. market (see *id.* at 20-23 & n.26). Treasury's regulation provides the protection Congress explictly intended to give, while excluding cases that, as best the agency can determine, Congress had no intention to reach.

At bottom, respondents' sole objection is that the regulation "ignore[s] the words of the statute" (Resp. Br. 50). But Treasury's regulation is not a departure from literalism except in a sense in which such departures are commonplace: the addition of words of limitation to exclude a class of cases that Congress did not contemplete but would have intended not to cover.[14]

**D. The Treasury Department's Regulation is Entitled to Particular Deference in this Case**

As we explained in our opening brief (at 36-46), the Treasury Department's interpretation is entitled to particular deference in this instance because Treasury's inter-

[14] There is nothing unreasonable in reading Section 526's phrase "bears a trademark" with the implicit contextual qualification "not applied by the U.S. owner, or its affiliate, or with its consent." Such an interpretation is every bit as faithful to the statutory language as reading the phrase "any taxes * * * on income" with the implicit contextual qualification "but not U.S. income taxes" (see *O'Connor* v. *United States*, No. 85-558 (Nov. 4, 1986), slip op. 2), or reading the phrase "any * * * stock" with the implicit contextual qualification "but not stock that represents ownership of an apartment building by its occupants rather than an investment" (see *United Housing Foundation* v. *Forman*, 421 U.S. at 848-850), or, more hypothetically, reading the sign "No Vehicles in the Park" with the implicit contextual qualification "but wheelchairs, infant carriages, and the jeep on the war memorial are allowed." See Fuller, *supra*, 71 Harv. L. Rev. at 662-664.

pretation has remained essentially unchanged for over 50 years (and the very regulation has been in place for 15 years) and because domestic retailers have placed substantial and justified reliance on that interpretation. Respondents' arguments to the contrary are without merit.

Respondents attempt to characterize the Treasury Department's interpretation as "uncertain" and "wavering" (Resp. Br. 37). But the regulatory history (which is set forth much more completely and accurately in our brief, at 37-41) disproves that assertion. During the past one-half century, consistent with the basic notion that a trademark has never given its owner a right to restrict later distribution of its own goods after it has sold them, the Treasury Department's regulations have at all times denied Section 526's protection where the foreign and domestic trademarks owners are the same or closely related firms. Indeed, there have been only *four* substantive regulatory revisions over the past 50 years, and those four changes have not altered the Treasury Department's basic interpretation. To our knowledge, Treasury has *never* consciously allowed U.S. components of multinational enterprises, such as respondents Cartier and Charles of the Ritz, to invoke Section 526 to exclude those enterprises' own goods.[15]

[15] From 1922 to 1936, the regulations did not address the "same company" issue. We are aware of no instance during this era of a multinational firm employing Section 526 to enforce its exclusive U.S. distribution scheme; there is no reason to believe the issue ever arose. From 1936 to 1953, the Treasury Department regulation permitted importation of trademarked goods when the foreign and domestic trademark owner were the "same person," a phrase understood to include parent and subsidiary. See J.A. 52-54, 62-63. From 1953 to 1959, the regulation contained the somewhat broader term "related company." From 1960 to 1972 and then from 1972 to the present, the regulation has permitted importation in common ownership or control situations. See U.S. Br. 37-41.



Respondents' examples of "inconsistencies" are, for the most part, relatively minor quibbles that simply underscore the continuity of Treasury's interpretation.[16] Respondents' argument is perhaps most strikingly inadequate in its failure to point out where the *Treasury Department* has demonstrated inconsistent behavior. Respondents build their claims upon isolated statements or contrary actions by far-removed entities, such as the now-defunct Tariff Commission (Resp. Br. 43) and "the collector of customs in Chicago" (*id.* at 46).[17] The fact of

[16] Indeed, respondents primarily challenge the form, and not the content, of the regulations. For example, their chief contention is that the Treasury Department failed to specify with sufficient clarity that its 1936, 1943, and 1953 regulations were based on Section 526 (Resp. Br. 42-44). But Treasury, which most assuredly is the relevant authority on such matters, has always contended that its regulations are based on Section 526. It specifically cited its reliance on Section 526 in its 1936 and 1943 regulations (U.S. Br. 37-38), and contemporary commentators understood that the 1953 regulations were based on that statutory section (*id.* at 38 n.47). Respondents' description (Resp. Br. 45-46) of the *Guerlain* litigation and the Treasury Department's consequent regulatory revision is misleadingly incomplete; we refer the Court to our opening brief (at 39-40 n.48) for a full explanation of that revision. We simply add that, contrary to respondents' assertion (Resp. Br. 46 n.35), the United States' decision to seek clarifying legislation in the wake of *Guerlain* was not inconsistent with our inference that the Customs Service felt constrained to grant statutory protection in that case because it lacked sufficent information to make a "related company" determination. Treasury had previously recognized that clarifying legislation would be helpful; this case simply confirmed that general consensus. See U.S. Br. 39 n.48.

[17] We believe that Treasury can be faulted on only one score. In 1983, without Treasury's knowledge or approval, the Customs Service signed an amicus curiae brief that took a position partially inconsistent with the Treasury Department's regulations. See Pet. App. 27a. The Treasury Department was apparently remiss in failing to review the litigation activities of a subordinate agency, but that isolated failure is hardly a reason to ignore 50 years of consistent official policy.

the matter is that Treasury, for the past 50 years, has uniformly rejected the position respondents advocate here. A statutory interpretation that has been consistently recognized for so long acquires a significance that is "simply beyond peradventure." *Herman & MacLean* v. *Huddleston*, 459 U.S. 375, 380 (1983).[18]

Finally, respondents describe our suggestion that Section 526 is entitled to special respect in light of the substantial reliance interests that have developed over the years as "novel" and "without merit" (Resp. Br. 57). It is neither. This Court has repeatedly recognized that longstanding agency regulations are entitled to respect because of the "substantial reliance interests" they generate. See, *e.g.*, *Zenith Radio Corp.* v. *United States*, 437 U.S. 443, 457-458 (1978); *Udall* v. *Tallman*, 380 U.S. 1, 18 (1965); *McLaren* v. *Fleischer*, 256 U.S. 477, 481 (1921); see also *Commissioner* v. *Fink*, No. 86-511 (June 22, 1987), slip op. 4 (Stevens, J., dissenting) ("once a statute has been consistently interpreted in one way, there are institutional and reliance values that are often even more important than the initial goal of accurate interpretation"). In this instance, Treasury's interpretation of Section 526 has long been an "element of the settled legal context" (*Square D Co.* v. *Niagara Frontier Tariff Bureau*, No. 85-21 (May 27, 1986), slip op. 14), and domestic retailers have justifiably relied on that interpretation in their commercial dealings. Those retailers include many small businesses that have staked their financial livelihoods on what they quite reasonably have considered to be settled legal rules. See 133 Cong. Rec. S5525 (daily ed. Apr. 27,

[18] We further observed in our opening brief (at 41-42) that Congress has revisited Section 526 on numerous occasions over the past fifty years, has never stated any disagreement with the Treasury Department's regulations, and, in fact, has acknowledged them with apparent approval. These subsequent legislative events are strong additional evidence of the reasonableness of Treasury's interpretation.



1987) (Sen. Chafee). Respondents' contentions that these retailers are "free-riding" (Br. 57) are, by contrast, of far more recent vintage; respondents did not raise those arguments in the 1972 rulemaking proceeding, and they have yet to prove those arguments to the satisfaction of the expert governmental agencies that are best equipped to evaluate these complex economic matters. See U.S. Br. 4-5, 34 n.41, 40 & n.50.

For the foregoing reasons and the reasons set forth in our opening brief, the judgment of the court of appeals should be reversed.

Respectfully submitted.

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# REPLY BRIEF

Nos. 86-495, 86-624 and 86-625

IN THE
# Supreme Court of the United States
OCTOBER TERM, 1987

K MART CORPORATION,
*Petitioner,*
v.
CARTIER, INC., *et al.*

47TH STREET PHOTO, INC.,
*Petitioner,*
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

UNITED STATES OF AMERICA, *et al.*,
*Petitioners,*
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

**On Writ of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

# REPLY BRIEF FOR PETITIONER K MART CORPORATION

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16pp

## TABLE OF CONTENTS

## TABLE OF AUTHORITIES





## TABLE OF AUTHORITIES—Continued

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1987

---

Nos. 86-495, 86-624 and 86-625

---

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## REPLY BRIEF FOR PETITIONER K MART CORPORATION

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K mart submits the following brief in reply to the May 7, 1987 briefs for Respondents and amici, and as a supplement to its February 21, 1987 brief.

**ARGUMENT**

Respondents argue for a supposedly literal construction of Section 526 which would do something done by no other trademark law (or copyright or patent law) before or since: entitle an enterprise to impose restrictions upon the resale of its goods. Section 526 was intended to protect United States trademark owners against the importation of infringing goods made by others, not to enable foreign manufacturers to control the flow of their own goods after sale.[1]

Even the Respondents tacitly concede that the drafters of Section 526 never envisioned such a drastic result as flowing from their legislative efforts. But based on a twisted interpretation of a rather clear cut legislative intent to prevent trademark infringement by independent foreign companies, Respondents ask the Customs Service to enforce territorial restrictions and price discriminations which are illegal both in the United States[2] and abroad[3]. There is especially no justification for this when Respondents are themselves responsible for the existence of parallel imports:

[1] As Justice Holmes said in *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924), "A trade-mark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of another's product as his." *Cf. Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 409 (1911), holding that once a product has been sold, the public is entitled to the advantage of competition in the subsequent traffic.

[2] The antitrust laws prohibit the price-fixing and other restrictions on domestic distribution which Respondents seek to impose at the point of importation.

[3] Respondents admit that "efforts to stop diversion short of this country's borders are often ineffectual because of the practical or legal difficulty or impossibility of preventing sales in foreign countries to third-party diverters." Respondents' May 7, 1987 Brief at 3. This is because other countries have rejected as illegally anticompetitive Respondents' efforts to restrict parallel imports. *See* foreign cases cited in K mart's February 21, 1987 Brief at 43-44.



COPIAT members manufacture abroad, rather than in the United States, because it is more profitable;

COPIAT members promote the same trademarks and use the same packaging worldwide because it is more profitable;[4]

COPIAT members charge the American consumer higher prices because it is more profitable; and

COPIAT members are owned and/or controlled by foreign companies because it is more profitable.

Respondents have proffered conflicting economic reasons for parallel imports.[5] On the one hand, Respondents claim that expensive warranties and service in the United States account for the cost differences which result in parallel imports.[6] However, COPIAT has submitted statistics to the Treasury Department in connection with the ongoing rulemaking proceeding which show instead that these costs come nowhere near the price difference between "authorized" and parallel imports.[7]

[4] Respondents claim that import restrictions are necessary because they market inferior products abroad with trademarks, packaging and labelling identical to those on the products they market in the United States. *See Lever Brothers Co. v. United States*, 652 F. Supp. 403 (D.D.C. 1987). The Lanham Act, however, expressly provides that a trademark is forfeited if a related company uses it on an inferior product, thereby deceiving the public. 15 U.S.C. § 1055.

[5] If the result in this case were to depend on such evidence, the case must be remanded for discovery. Cross motions for summary judgment were filed, but no discovery was conducted on the contested issues of material fact (J.A. 2 No. 28). *See* Statement of Robert W. Steele (J.A. 2 No. 28 Att. 8).

[6] *See* Statements of Robert H. Miller ¶ 13, Aaron Altman ¶ 9, Jack M. Abrams ¶¶ 12-18 (J.A. 2, No. 8).

[7] For example, the warranty costs for three camera manufacturers averaged less than 2.7% of the retail price; three fragrance and cosmetic manufacturers had no warranty or service costs whatsoever. COPIAT, *The Economic Impact of Diversion*, submitted to the Customs Service Sept. 20, 1984 at Table 4.

The latter is the more sensible conclusion: Respondents must promote, market, service, and guarantee their products regardless of the country in which they sell them; on the other hand, United States retailers must promote, market, service and guarantee parallel imports at their own expense.[8]

## I. THE STATUTORY SCHEME FAVORS PARALLEL IMPORTS

Respondents and their amici would have the Court believe that Section 526 (and Section 42 of the Lanham Act) were actually meant to deal with imagined evils ranging from unsafe automobiles to adulterated liquor. As legislative history and court decisions confirm, these are not the controlling statutes on such matters. Statutes such as the Federal Food, Drug & Cosmetic Act, 21 U.S.C. § 301 *et seq.*, the National Traffic and Motor Vehicle Safety Act, 15 U.S.C. § 1391 *et seq.*, and the Clean Air Act, 42 U.S.C. § 7401 *et seq.*, govern the contents and labelling of cosmetics and the safety and emissions of cars—whether imported or domestic and whether sold by an "authorized" or an "independent" distributor. Likewise, federal and state warranty, labelling and consumer protection statutes, such as the Fair Packaging and Labelling Act, 15 U.S.C. § 1451 *et seq.*, and the Magnuson-Moss Warranty Act, 15 U.S.C. § 2301 *et seq.*, govern the responsibility of retailers, distributors and manufacturers (whether foreign or domestic) for consumer goods.

### A. Protection Of Trademarks

Respondents apparently no longer contend that the Customs Service regulations are inconsistent with Section 42 of the Lanham Act. It is certainly difficult to argue that parallel imports violate Section 42, since no

[8] *See* statements of William Propst ¶ 11, John M. Bauersfeld ¶ 5, Ely Steinfeld ¶ 13 (J.A. 2 No. 28 Atts. 1, 4, 6). For example, K mart spent over $495 million on product promotion in 1986.



"copying or simulating" is involved. Respondents' concession is significant because courts, Congress and the Customs Service have traditionally considered the Lanham Act together with Section 526 when deciding the extent to which the importation of genuine trademarked goods can be prevented. This was the genesis of Section 526, when the Second Circuit held in *Katzel*[9] that the Trademark Act of 1905 did not protect the bona fide purchase of trademark rights by an independent American firm. Since 1922, virtually every congressional[10] and judicial[11] discussion of parallel imports has relied on both Section 526 and Section 42 of the Lanham Act, and the Customs Service has consistently relied on both as the authority for its regulations.[12] For example, the 1936 regulations, which permitted the importation of trademarked goods manufactured abroad where the foreign and domestic trademarks were "owned by the same person, partnership, association or corporation", relied upon both Section 526 and the Trademark Act.[13]

When these two statutes are considered together and construed consistently, the only possible conclusion is that Congress intended trademarked goods to be freely imported except in the very specific *Katzel* situation—to prevent fraud on the independent American purchaser of the domestic rights to a foreign trademark.

The Ninth Circuit recently emphasized the proper application of the Lanham Act to parallel imports.[14] In

[9] *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923).

[10] *See* K mart's February 21, 1987 brief at 24-31.

[11] *See* K mart's February 21, 1987 brief at 1 n.1.

[12] *See* Art. 517, Customs Regulations of 1931 (J.A. 21-22); 19 C.F.R. § 11.14 (1946) (J.A. 45-46); 19 C.F.R. § 11.14 (1969) (J.A. 67).

[13] 1 Fed. Reg. 1,725 (1936) (T.D. 48,537) (J.A. 27-28).

[14] In two cases, the Second Circuit has seriously confused the law of parallel imports by failing to consider the 1984 Lanham Act

*NEC Electronics, Inc. v. CAL Circuit Abco, Inc.*, 810 F.2d 1506 (9th Cir. 1987), the court held that the *Katzel* decision "presuppose[s] the American [trademark] owner's real independence from the foreign manufacturer, and courts interpreting *Katzel* have repeatedly emphasized this factor." 810 F.2d at 1510. The court of appeals also acknowledged that the Customs Service "has *for decades* made an exception to section 526 in cases where the American trademark owner and the foreign producer are under common control." 810 F.2d at 1510 n.4 (emphasis added).

The court further recognized that NEC and its affiliates were themselves responsible for the parallel imports:

> If NEC-Japan chooses to sell abroad at lower prices than those it could obtain for the identical product here, that is its business. In doing so, however, it cannot look to United States trademark law to insulate the American market or to vitiate the effects of international trade. This country's trademark law does not offer NEC-Japan a vehicle for establishing a worldwide discriminatory pricing scheme simply through the expedient of setting up an American subsidiary with nominal title to its mark.

810 F.2d at 1511.

Respondents would have this Court endorse such a scheme.

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amendments which defined the indicia of a genuine trademark. *See* 15 U.S.C. § 1116(d)(1)(B). Moreover, the court ignored the legislative history which confirmed the legality of parallel imports. S. Rep. No. 98-526, 98th Cong., 2d Sess. 3 (1984), *reprinted in* 1984 U.S. Code Cong. & Admin. News 3627, 3629. Petitions for certiorari are pending in both *El Greco Leather Products Co. v. Shoe World, Inc.*, 806 F.2d 392 (2d Cir. 1986), and *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 26 (2d Cir. 1987).



**B. Protection Of American Interests**

Respondents characterize Petitioners' interpretation of Section 526 as xenophobic.[15] But Section 526 by its terms protects only "a citizen of" or "a corporation or association created or organized within" the United States which is also "domiciled in the United States," and the legislative history confirms this bias against foreign companies.[16]

Although Respondents have now proffered a plethora of complex corporate structures to test the limits of the Customs Service regulations, the court below recognized the predominant distribution system at issue:

> This situation typically arises when a foreign producer creates an American subsidiary that then registers the American trademark.

790 F.2d at 904.[17]

To escape antitrust liability for their price-fixing and distributional restraints, COPIAT and its amici argue vigorously that the foreign producer and its American subsidiary are a single entity which cannot conspire with itself.[18] If each of these parent-subsidiary combinations

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[15] The *Katzel* decision itself was xenophobic, since the plaintiff was perceived to have been cheated by the French company from which it purchased trademark rights.

[16] While Congress in 1922 did not envision the complex structure of the modern multinational corporation, there is no reason to assume that it would have favored such an entity over American consumers.

[17] Chief Judge Weinstein described the corporate structure of a COPIAT member as follows:

> Hattori and its American subsidiaries do maintain some independence—about as much as the egg and vegetables in a western omelette.

*Bulova Watch Co. v. K. Hattori & Co.*, 508 F. Supp. 1322, 1341 (E.D.N.Y. 1981).

[18] *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752, 771 (1984). Respondents alternatively argue that at most they engage in vertical price-fixing, which should no longer be regarded

is a single entity, with a foreign company exercising control, that entity has no right—under the literal words of Section 526—to exclude goods that it has sold abroad. On the other hand, if the domestic subsidiary is considered the agent of its foreign parent, Congress in 1922 stated that parallel imports could not be excluded:

> The mere fact of a foreigner having a trade-mark and registering that trade-mark in the United States through an agency, of course, would not be affected by this provision [*i.e.*, Section 526].

62 Cong. Rec. S 11,605 (Aug. 19, 1922) (statement of Sen. McCumber).[19]

Congress recently confirmed that it considers a foreign manufacturer and its American subsidiary a single entity by refusing to recognize the supposed independence of Toshiba America, Inc., the wholly-owned Toshiba subsidiary which markets consumer electronics in the United States. Congress voted to ban the importation and sale of Toshiba products because one of Toshiba's Japanese subsidiaries, at most a "half-sister" of Toshiba America,

as *per se* illegal under the antitrust laws. Respondents' May 7, 1987 Brief at 39. This position is questionable both as a matter of law and as a matter of fact.

Recent events confirm that the Customs Service regulations protect American consumers from *horizontal* price-fixing conspiracies. For example, the Electronics Industries Association of Korea, whose members distribute through wholly-owned American subsidiaries, recently announced that it was "voluntarily placing restraints—in the form of price floors—on exports [of consumer electronics products] to the U.S." and would consider imposing export restrictions to keep retail prices high. *Wall Street Journal*, Aug. 29, 1987, at 2. Where an entire industry adopts such a position, parallel imports are the only source of interbrand or intrabrand price competition.

[19] Likewise the Customs Service regulations have, since at least 1936, expressly recognized that Section 526 does not apply where the foreign and domestic trademarks "are owned by the same person, partnership, association, or corporation." 1 Fed. Reg. 1,725 (1936) (T.D. 48,537) (J.A. 27-28).



Inc., had sold secret submarine technology to the Soviet Union.[20]

**C. Regulatory Authority**

Respondents argue that Congress, in granting general rulemaking authority,[21] did not intend the Customs Service to interpret or construe Section 526, because Section 526 itself contains no delegation of rulemaking authority; on the other hand, where Congress intended the Customs Service to have such authority in particular areas, it made specific, limited delegations of such authority.

This argument has been rejected, perhaps most dramatically in connection with the delegation of rulemaking authority to the Federal Trade Commission. The District of Columbia Circuit held that although Congress had specifically given the FTC rulemaking authority in certain particular areas, this did not preclude the agency from relying on a general delegation of authority to issue broad, substantive rules with the full force and effect of law.[22]

The Customs Service regulations on parallel imports are entitled to similar treatment.

## II. BOTH CONGRESS AND THE PUBLIC HAVE LONG RELIED ON THE CUSTOMS SERVICE REGULATIONS

Respondents argue vigorously that the Customs Service regulations are neither long-standing nor consistent. However, at the end, Respondents are forced to admit that a multinational enterprise with both American and foreign arms has not been allowed to preclude importa-

[20] The Senate voted 95-2 to ban the importation of Toshiba products. House conferees on the Trade Bill were directed to accept such prohibitions to protect national defense. *See* 133 Cong. Rec. H 7,303-7,304 (daily ed. Aug. 7, 1987).

[21] 19 U.S.C. § 66; 19 U.S.C. § 1624.

[22] *National Petroleum Refiners Ass'n v. FTC*, 482 F.2d 672, 695-697 (D.C. Cir. 1973), *cert. denied*, 415 U.S. 951 (1974).

tion of goods bearing a United States trademark since at least 1936.[23] Nor can Respondents point to a single instance when the Customs Service has issued a regulation or public decision supporting their reading of Section 526.

The attacks which Respondents have launched against the various Customs Service regulations in effect since 1936 are largely linguistic. For example, Respondents argue that the Customs Service was somehow inconsistent in 1953 when it amended the regulation expressly to allow admission of trademarked goods manufactured abroad by "related companies".[24] Respondents ignore, however, that the related company language, if it changed the Customs Service regulation at all, *broadened* the class of trademarked goods which could be imported freely into the United States. At no time since 1936 has Customs ever indicated that Section 526 could be the basis for precluding all imports of trademarked goods manufactured abroad by a multinational enterprise.

It is clear that Congress has had this understanding of Customs Service regulations for some time.[25] Indeed, even those legislators who oppose parallel imports are constrained to admit that the Customs Service regulation presently allows such imports.[26]

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[23] While we recognize that Section 526 was directed toward goods manufactured abroad by a foreign company, it should not be construed to permit a United States company to preclude the importation of trademarked goods which its own subsidiary has manufactured abroad. Indeed, such a construction would apparently be contrary to the Lanham Act, which only prohibits the sale of copies, simulations or counterfeits.

[24] T.D. 53,399 (1953) (J.A. 55, 56). *See* Respondents' May 7, 1987 Brief at 44.

[25] *See* S. Rep. No. 98-526, 98th Cong., 2d Sess. (1984), *reprinted in* 1984 U.S. Code Cong. & Admin. News 3627, 3629.

[26] *See* 133 Cong. Rec. S 11,893-11,894 (daily ed. Sept. 9, 1987).



Under the circumstances, American companies which have been dealing in parallel imports have had every right to rely upon the Customs Service regulations. These companies have brought price competition to the market which would not exist if it were not for their reliance and their efforts.

## CONCLUSION

Respondents have not advanced any credible reason now to overturn the Customs Service regulations of which Congress has been apprised and on which a substantial domestic industry has relied for over five decades. The rules of statutory construction and considerations of public policy mandate that the regulations be upheld.

For these reasons and those set forth in K mart's February 21, 1987 Brief, the judgment of the court of appeals should be reversed.

Respectfully submitted,

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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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## REPLY BRIEF FOR PETITIONER 47TH STREET PHOTO, INC.

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## TABLE OF CONTENTS

TABLE OF AUTHORITIES





TABLE OF AUTHORITIES—Continued

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1987

---

Nos. 86-495, 86-624, and 86-625

---

K MART CORPORATION,
*Petitioner*
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**REPLY BRIEF FOR PETITIONER 47TH STREET PHOTO, INC.**

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## INTRODUCTION

The legal position that emerges from the briefs of COPIAT and its cadre of *amici*[1] is stark: If a corpo-

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[1] The array of COPIAT's *amici* is designed to convey the impression that the issue in this case concerns American manufacturers more than foreign manufacturers. That is simply untrue. Indeed, the study by Lexecon Inc. that was sponsored by COPIAT and relied upon in COPIAT's discussion of parallel importation

ration incorporated in the United States is the registered owner of trademark rights under American law, even if it is a shell wholly owned by a foreign manufacturer who controls the trademark elsewhere in the world, Section 526 gives the foreign manufacturer, through its subsidiary, the statutory power to exclude from the United States authentic trademarked goods manufactured abroad. In other words, COPIAT maintains that legal form, rather than substance, is the only standard that Congress prescribed in 1922, and legal form, not substance, is the sole standard that governs this Court's decision 65 years later.

We detail below some of the many reasons why COPIAT's legal arguments are erroneous. But we begin by noting that COPIAT's sacrifice of substance to form belittles both Congress and the Court. The plain meaning doctrine does not mean that the purpose and intention of Congress are to be ignored or that words are to be read devoid of their context. The Congress that enacted Section 526 plainly wanted to deny to foreign corporations the statutory right to control the flow of their own merchandise into the United States. But, according to COPIAT, Congress' deliberate judgment may be ignored if a wholly owned American subsidiary is established to hold legal title to American trademark rights. If COPIAT is right, the 1922 Congress labored to create a distinction—*i.e.*, between foreign and American corporations—which makes no practical difference.

This Court cannot read Section 526 as COPIAT would read it without obliterating Congress' directive that a foreign corporation have no right to exclude its own

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(COPIAT Br. 5, n.5) states on page 2 that "[m]ost COPIAT members are U.S. subsidiaries of foreign manufacturers." This was the understanding of the court below. 790 F.2d 903, 904. *Amicus* Lever Brothers, for example, initially calls itself "the American manufacturer of quality trademarked merchandise," but acknowledges in its brief that it is a wholly owned subsidiary of a Dutch company that controls worldwide distribution of its products. Lever Bros. Br. 2-3, 5-6.



merchandise and that only an American corporation be given that right. To accept COPIAT's argument, the Court would also have to ignore what has been happening in international commerce over the past half century—and particularly over the most recent decade and a half. Parallel imports have been permitted into the United States—as they have been permitted into virtually all economically developed countries—since at least 1972.[2] Patterns of international trade in consumer goods have developed on the basis of this policy. Investments have been made and expectations have been created. If the *status quo* is to be altered, Congress should make the change, not this Court.

## ARGUMENT

### I. SECTION 526 IS NOT CLEAR.

COPIAT states time and again that Section 526 "is clear," that it has a "natural meaning," and that the principles governing "unambiguous" terms of a statute apply here. In view of the overwhelming evidence of contrary administrative practice and of Congress' ratification of that practice, it is not surprising that COPIAT seeks refuge in its own preferred construction of the statutory language. But the statute does not become clear simply because COPIAT repeatedly calls it clear. The only clear aspect of the statute is its application to independent American purchasers of foreign trademarks. The question posed by COPIAT is whether the statutory language includes the much broader category of U.S. distributors of foreign-manufactured goods.

Because the key words of the statute have been given various meanings depending upon their context, the plain meaning of the statute cannot be determined without reference to congressional intent. The meaning that

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[2] We maintain that this has been true since 1922, and demonstrably since the 1930's. 47th St. Photo Br. 30-36. But even if COPIAT's broadest assertions are accepted as true, the Customs Service regulation that was challenged in its 1984 lawsuit was promulgated in 1972.

COPIAT views as "natural"—*i.e.*, that General Motors would obtain a domestic monopoly in GM cars if it moved its manufacturing abroad—is, in actuality, unreasonable and unnatural in view of Congress' manifest purpose in 1922 and 1930 of protecting independent purchasers of foreign trademarks and preventing the loss of U.S. manufacturing facilities. COPIAT's interpretation of Section 526 would in fact give companies like General Motors an *incentive* to locate their operations in a foreign country because only then could such companies control the flow of their products into the United States. This is in direct conflict with the 1922 Congress' intent to protect *American* operations, and is dramatically inconsistent with the 1929 debate, in which the Senate's sole concern was to *prevent* American companies from relocating their plants.

Moreover, the general guidelines governing statutory interpretation that COPIAT quotes liberally do not apply when, as here, the statute in question has been hastily drafted and its precise language has not been subjected to rigorous legislative scrutiny.

### A. The Key Words "Owned," "Domiciled," and "Foreign Manufacture" Are Ambiguous.

1. *"Owned"*—If a foreign company is the sole stockholder of an American corporation that holds legal title to trademark rights, is the trademark "owned by a citizen of . . . the United States?" COPIAT claims that the statutory word "owned" is a "clear" directive that the subsidiary, rather than the parent, is the owner. In fact, however, the legal concept of "ownership" has been the subject of much controversy and litigation.

In many contexts, the courts have held that property held by a corporation for the benefit of its sole stockholder is, in substance, "owned" by the stockholder. In the case of corporate parent and subsidiary, this Court has noted the "unity of interest" between corporations in this relationship. *See Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752, 771 (1984). The corporate parent is, we submit, the true "owner" of property held for its benefit by the subsidiary.



There are various situations where a corporation is considered the *alter ego* of its shareholder, and "ownership" by the subsidiary is treated as the "ownership" of the parent. *See, e.g., Valley Finance, Inc. v. United States*, 629 F.2d 162 (D.C. Cir. 1980), *cert. denied*, 451 U.S. 1018 (1981) (jeopardy assessment); *cf. Loving Saviour Church v. United States*, 556 F. Supp. 688, 690 (D.S.D. 1983), *aff'd*, 728 F.2d 1085 (8th Cir. 1984) ("the word ['owner'] may depend for its significance upon the connection in which it is used, and at times may include one not holding legal title"). Courts have frequently pierced the form in which "ownership" is documented and have assigned the title "owner" to the real party in interest. In *United States v. One 1945 Douglas*, 604 F.2d 27, 28 (8th Cir. 1979), *later appeal*, 647 F.2d 864 (8th Cir. 1981), *cert. denied*, 454 U.S. 1143 (1982), the court of appeals defined "ownership" as

> having a possessory interest in the res, with its attendant characteristics of dominion and control.

The court of appeals went on to distinguish between a "nominal owner," who may have title for the benefit of another, and the "true owner." *See also United States v. D.K.G. Appaloosas, Inc.*, 630 F. Supp. 1540, 1567-1568 (E.D. Tex. 1986) (court rejects proposition that "documents of title establish corporate ownership of the seized property").

The ambiguity of the word "owned" is summarized at 73 *Corpus Juris Secundum*, Property § 25(a): "The term 'owner' is a general term having a wide variety of meanings depending on the context and the circumstances in which it is used." *See, e.g., Huff v. Union Electric Co.*, 598 S.W.2d 503, 510-13 (Mo. Ct. App. 1980); *American Indemnity Co. v. Davis*, 260 F.2d 440, 442 (5th Cir. 1958). Given the present "context and circumstances," the "owner" of the trademark is not the

wholly owned American subsidiary to whom the legal trademark rights have nominally been assigned but the actual beneficial owner of those trademark rights—the foreign parent.[3]

(2) *"Domiciled"*—If the corporate subsidiary of a foreign company registers a trademark with the Patent Office, has that trademark been registered "by a person domiciled in the United States?" Is the subsidiary's state of incorporation the "domicile" to which the Court must look, or is the registrant "domiciled" where its business decisions are actually considered and controlled? In *First Bank Stock Corp. v. Minnesota*, 301 U.S. 234, 237-238 (1937), this Court ignored the legal situs of incorporation in favor of a practical assessment of where the corporation was operated and controlled. Although the corporation was legally "domiciled" in Delaware, it held stock certificates in Minnesota, and the corporation operated its business and maintained a wholly-owned subsidiary there. As a consequence, the Court held that Minnesota was the corporation's commercial "domicile." The fact that this Court distinguished between two distinct kinds of "domicile" just seven years after Congress re-enacted Section 526 refutes COPIAT's claim that the term is "unambiguous."

Moreover, Congress provided double assurance that only a domestic trademark owner could exercise the right granted by Section 526. It required not only that the owner be an American citizen, but also that the registrant of the trademark be an American domiciliary. Facile evasion of this doubly-secured condition by per-

[3] Because of the ambiguity of the term "ownership"—as well as the strong evidence of Congressional intent—COPIAT's reliance on *Amoco Production Co. v. Village of Gambell*, 107 S. Ct. 1396, 1406 (1987), is misplaced (plain meaning applies where "an expression is capable of precise definition" and there is no "strong evidence" that Congress actually intended another meaning). *See Rockford Life Insurance Co. v. Illinois Dep't of Rev.*, 107 S. Ct. 2312 (1987); *San Francisco Arts & Athletics, Inc. v. U.S. Olympic Committee*, 107 S. Ct. 2971 (1987).



mitting wholly owned corporate subsidiaries to invoke Section 526 rights would conflict squarely with Congress' policy choice.

(3) *"Foreign Manufacture"*—COPIAT and its *amici* contend that the statute applies by its terms to goods manufactured abroad by a subsidiary of an American corporation such as General Motors. They claim that we must be arguing that General Motors "either does not 'own' its Chevrolet trademark or is not 'domiciled' in the United States." COPIAT Br. 21. That is a misstatement of our argument.

We contend that a foreign corporate *parent* does not qualify as an American "owner" of the trademark, and that if its subsidiary is the trademark registrant, the "domicile" to be looked to is the domicile of the parent. With respect to American corporations whose foreign subsidiaries manufacture products that are then imported to the United States, they do not qualify under Section 526 for several reasons.

*First*, it is plain that Congress was contemplating a situation of a foreign producer who is independent of the American trademark owner. The talk of "fraud" that permeated the short Senatorial debate makes no sense in the context of a foreign subsidiary of an American firm. The subsidiary plainly cannot be defrauding its parent if its authentic goods make their way to the United States. Indeed, if General Motors located a production plant just across the Canadian border, COPIAT's argument would apply to the importation of goods manufactured in that plant. Yet that was obviously not Congress' intention in either 1922 or 1930.

*Second*, the goods manufactured by the subsidiaries of General Motors or Duracell do not become "merchandise of foreign manufacture" simply because the American corporation chooses to locate its production plant on the other side of the border. If General Motors manufactured Chevrolets to American specifications, in a neighboring Canadian city, they would not be "merchandise

of foreign manufacture" within the meaning of Section 526.

The words "merchandise of foreign manufacture" were inserted into Section 526 on the floor of the Senate to deal with the situation of an American citizen who buys a sack of "Wonder flour" in Canada. 62 Cong. Rec. 11,603-11,604 (1922). Congress did not seem to care precisely *where* the "Wonder flour" was processed or packaged. Its point was that it was an *American* product—much as Chevrolet automobiles are today. By inserting the language "merchandise of foreign manufacture," Congress meant to except American products manufactured by American companies, regardless of where they were produced.

**B. Since Section 526 Was Hastily Drafted, Its Terms Are Not "The Unambiguously Expressed Intent of Congress."**

COPIAT treats the language of Section 526 as if each of its terms had been scrupulously dissected and analyzed by Congress. Such treatment is suitable for a law that travels the usual legislative course—*i.e.*, that is drafted by experienced legislative draftsmen, carefully examined in legislative hearings, reviewed by staff personnel involved in composing legislative reports, and discussed from every angle during legislative debate. The same respect is plainly not due to language that has been hastily thrown together to cover a particular situation that arises while a bill is being debated on the floor of Congress.

It is undisputed that Section 526 was a "midnight amendment," enacted quickly with little examination of the precise language used in the law.[4] It was an amendment to the Tariff Act of 1922, specifically addressing the

[4] Senator Moses stated that the amendment "was put back in the bill among the myriad amendments brought in by the committee the other morning after their midnight session, and it may be fairly classified now as one of the midnight amendments." 62 Cong. Rec. 11,602 (1922).



situation of *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921).[5] Only ten minutes of debate on the Senate floor preceded its adoption.

The Court has long held that broad language of a statute or regulation, if hastily drafted or included as a last-minute amendment, must be limited to the particular concern that occasioned its enactment. *See United States v. Bass*, 404 U.S. 336, 344 (1971) (Title VII of Omnibus Crime Control and Safe Streets Act cannot be read to dovetail with Title IV, because of its hasty passage); *Fort Smith & Western Railroad Co. v. Mills*, 253 U.S. 206, 208 (1920) (law setting maximum hours and minimum wages for railroad workers did not apply to railroad in receivership, where purpose of statute was to avoid strikes); *cf. Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 212 n.32 (1976) (noting hasty passage of Rule 10(b)-5). As Justice Holmes noted (253 U.S. at 208):

> But the statute avowedly was enacted in haste to meet an emergency, and the general language necessary to satisfy the demands of the men need not be taken to go further than the emergency required, or to have been intended to make trouble rather than to allay it.

Such statutory language should not be construed to reach unforeseen circumstances. In *McMunn v. Hertz Equipment Rental Corp.*, 791 F.2d 88, 93 (7th Cir. 1986), the Seventh Circuit recently said:

> Statutes are drafted in haste and sometimes carelessly, by busy legislators concerned with a particular problem but also concerned not to draft their statute

[5] COPIAT acknowledges that the sponsors of the statute told their colleagues that the law was designed for that limited purpose. They claim, however, that its true purpose was hidden by "blur[ring] one of the targets, stating that all the amendment did was to 'prevent fraud' and imputing to the *Katzel* case a species of fraud not present in it." COPIAT Br. 28. COPIAT perversely ignores what the sponsors *said* the bill was to accomplish and elevates their alleged hidden agenda.

> so narrowly that it opens gaping loopholes. When they use general language they create a potential for application to situations unforeseen by them and remote from their purposes, and then it is the task of courts by imaginative interpretation to keep the statute within reasonable bounds . . .

The use of international conglomerates was obviously "unforeseen" by the 1922 Congress. Indeed, there is no evidence that Congress even contemplated that a foreign corporation would own all the stock of an American corporation.[6] The situation presented in this case was altogether beyond Congress' vision. *See also Morrison-Knudsen Constr. Co. v. Director, Office of Workers' Compensation Programs*, 461 U.S. 624, 632 (1983).

**C. Section 526 Legislates More Than a Mere Formality.**

According to COPIAT's argument, the right to exclude authentic goods granted by Section 526 exists if any entity incorporated in the United States owns the American trademark. Did Congress mean to deny the newly created right to foreign owners of American trademarks but to grant that right if the foreign owner obtained a certificate of incorporation for a subsidiary in the United States? If Cartier, Inc., is excluded from the right conferred by Section 526 because it is a foreign corporate

[6] The legislative history of Section 526 includes Senator Lenroot's question whether a foreign manufacturer could use an American "agent" to gain a monopoly in its goods. 62 Cong. Rec. 11,605 (1922). COPIAT claims that Senator Lenroot "pointedly raised the issue of the treatment of a corporation created within the United States acting as agent or distributor for a foreign parent." COPIAT Br. 31. And the court below also stated that "Senator Lenroot explicitly raised the issue of an American subsidiary of a foreign company." 790 F.2d at 912. But Senator Lenroot never spoke of a corporation or of a "subsidiary." Rather, from Senator Edge's first reference to an American "agent" or "agency," it was assumed that the foreign manufacturer would act through a human agent. There is no basis for believing that Congress imagined that foreign manufacturers would take advantage of Section 526 by incorporating a subsidiary in the United States.



entity, does it qualify if it creates a corporation to whom it assigns the American trademark?

If so, Congress has legislated a mere formality. It is well established that legislation should not be interpreted to attribute to Congress so senseless a requirement. *See, e.g., United States v. George*, 625 F.2d 1081, 1086 (3d Cir. 1980); *Bankers Trust Co. v. United States*, 438 F.2d 1046, 1048 (2d Cir. 1971) ("It would be wrong to attribute to Congress an intent to require executors to engage in useless formalities . . ."); *Beeler v. United States*, 338 F.2d 687, 690 (3d Cir. 1964) ("to attribute to Congress an intent to give overriding effect to mere technicalities—an intent which would be directly contrary to the whole purpose and spirit of the legislation"); *W.K. Buckley, Inc.* v. *Commissioner*, 158 F.2d 158, 162 (2d Cir. 1946). "In particular, the Court has consistently refused to give effect to the corporate form where it is interposed to defeat legislative policies." *First Nat. City Bank v. Banco Para El Comercio*, 462 U.S. 611, 629-630 (1983). *See also Anderson v. Abbott*, 321 U.S. 349, 362-363 (1944).

## II. THE CUSTOMS SERVICE HAS NEVER BARRED PARALLEL IMPORTS.

If COPIAT's view—that Section 526 clearly and unambiguously protects international conglomerates that distribute their goods in the United States—were correct, the 50-year enforcement history of the statute should reflect at least *one instance* in which the Customs Service deliberately prohibited parallel importation. While our briefs cite cases (such as the 1951 *Jensen* decision[7]),

[7] *In the Matter of Georg Jensen, Inc.*, T.D. 52,711 (1951). COPIAT asserts, at p. 46 of its Brief, that it did not become the Customs Service's "public view" that parent and subsidiary companies were to be treated as one, until 1968. The *Jensen* decision—issued in 1951—is itself a public statement of that policy. *See also* Derenberg, "The Impact of the Antitrust Laws on Trade-Marks in Foreign Commerce," 27 *N.Y.U.L. Rev.* 414, 429 (1952)

and administrative determinations over the half century of regulatory history, COPIAT cannot point to a single period of time in which commonly controlled entities were given the right to prohibit parallel importation, or to a single instance in which such parallel imports were knowingly prevented by the Customs Service.

Much is made of *United States v. Guerlain, Inc.*, 155 F. Supp. 77, 90 (S.D. N.Y. 1957), *vacated*, 358 U.S. 915 (1958), where American affiliates of French perfume manufacturers persuaded Customs to exclude parallel imports of their perfumes. But Customs did so without knowing of the "controlling foreign affiliations" of the American trademark owners. John F. Atwood, a Customs law specialist, noted that the exclusion by Customs conflicted with contemporaneous Customs policy (Atwood, "Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs," 59 *Trademark Rep.* 301, 307 (1969)):

> [T]he Bureau of Customs . . . had always denied complete exclusionary protection to an American trademark registrant when it knew the importer to be a subsidiary or parent of the foreign user of the trademark. Prior to 1953, however, the Customs Regulations were not set up to specifically elicit this kind of information.[8]

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(citing *Jensen* and the "long established practice" of Customs not to prevent parallel importation if the foreign user "owns, or in some manner, controls" the U.S. trademark).

[8] COPIAT maintains that this explanation does not accord with the government's subsequent action in seeking legislation. COPIAT Br. 46, n.35. But there was no inconsistency in seeking legislation and dismissing the antitrust case because, on its singular facts, it was unfair to proceed against trademark owners if the Customs Service had unwittingly assisted their effort to exclude parallel imports. The legislative proposal (H.R. 7234, 86th Cong., 1st Sess. (1959)) went substantially beyond the facts in *Guerlain* or those of this case. It would have restricted only the importation of counterfeit goods, leaving even *bona fide* independent American trademark owners without protection.



**A. Customs' Earliest Published Regulations Applied To Section 526.**

COPIAT argues that the regulations, for most of their history, effectuated only the trademark laws, and not the Customs laws. COPIAT Br. 42-44. But Section 526 of the Tariff Act and Section 42 of the Lanham Act have always been read *in pari materia.*[9] Moreover, the structure of the early regulations refutes COPIAT's argument that they were limited to Section 42 of the Lanham Act. Articles 518 and 522 of the 1936 Regulations parallel the structure of Sections 526(a) and (b) of the Tariff Act. Section 526(a) of the Tariff Act is titled "*Importation Prohibited,*" and Article 518 of the Regulations is titled "*Prohibition of Importation.*" Section 526(b) of the Tariff Act is titled "*Seizure and Forfeiture,*" and Article 522 of the Regulations is called "*Detention—Seizure—Importation—Release.*" In addition, Article 518(b) of the 1931 Regulations refers explicitly to Section 526. It seems plain that Article 518 was an interpretation of Section 526(a), and Article 522 was an interpretation of Section 526(b).

**B. The Regulations Implement The "First Sale" Doctrine.**

The 1931 and 1936 regulations, which carry through to the present, embody the "exhaustion principle"—the longstanding rule that it is only the first sale, and not resales, which a trademark holder can control under the trademark laws. As a leading commentator has explained:

> The resale or advertising for sale of the genuine plaintiff's article in its original form, under plaintiff's trademark, affixed by plaintiff's authorization, is not trademark infringement.

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[9] COPIAT itself began this litigation asserting that the two statutes have the same "reach" (Brief for Appellant at 73, *COPIAT v. United States*):

> If Section 42 has a reach different from that of Section 526, the agency has never explained why there is a difference or just what the difference is.

3A Callman, *The Law of Unfair Competition, Trademarks and Monopolies*, § 21.13, at 62 (Altman 4th ed. 1983) (footnote omitted). Thus, when one entity operating in both American and foreign markets places its trademark on a product and introduces it into commerce, it may not use its trademark to control the further distribution of that product.[10] In the parallel import context, a trademark owner has no trademark right "to insulate itself from what it placed in motion itself through its own foreign manufacturing and distribution sources." *Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416, 419 (S.D. Fla. 1983); *accord*, *NEC Electronics v. CAL Circuit ABCO*, 810 F.2d 1506, 1511 (9th Cir. 1987) ("This country's trademark law does not offer . . . a vehicle for establishing a worldwide discriminatory pricing scheme simply through the expedient of setting up an American subsidiary with nominal title to its mark.").

## III. SECTION 526 PROVIDES NO PROTECTION AGAINST THE IMPORTATION OF INFERIOR PRODUCTS.

The most astounding claim made by COPIAT's *amici* is that they must have the authority to exclude authentic trademarked goods to protect American consumers from inferior products. Lever Bros. Br. 6-8; American Cyanamid, *et al.* Br. 5-6; Motor Vehicle Manufacturers Association Br. 6-11; United States Trademark Association Br. 9. The alleged inferior products which they want to bar from the United States are *their own goods*,

[10] The Customs Service explained its policy under Section 526 in similar terms. The letter dated March 23, 1951, from Frank Dow, Commissioner of Customs, to Senator Paul H. Douglas (J.A. 350), said that if the U.S. trademark owner and the foreign trademark owner are the same—so that "a foreign subsidiary or licensee of the United States trade-mark owner is considered to stand in the same shoes as such trade-mark owner"—articles which the foreign owner has sold abroad may be imported and resold because "the trade-mark owner himself introduced the articles into commerce or authorized such introduction."



that they have manufactured abroad or that have been produced under their license. And these same corporations have authorized use of their trademark on these allegedly inferior products manufactured abroad. If there is confusion in the mind of American consumers (*see, e.g.*, Lever Bros. Br. 8),[11] it is confusion caused entirely by the manufacturers themselves.

The Federal Trade Commission's Bureaus of Competition, Consumer Protection and Economics provided their comments on parallel importation to the Customs Service on October 17, 1986 ("*FTC Comments*"). The FTC noted that multi-national trademark owners may resolve consumer confusion by attaching different trademarks to goods of differing quality. The FTC said (*FTC Comments* 19-20, footnote omitted):

> Although some foreign manufacturers whose products are gray marketed have evidenced substantial interest in curtailing gray markets, many manufacturers have failed to take seemingly low-cost actions (for example labeling products distributed through authorized channels) that might solve their problem.

Moreover, a trademark owner who applies his trademark to materially different goods will generally be held to have abused his trademark. *Royal Baking Powder Co. v. Federal Trade Commission*, 281 F. 744 (2d Cir. 1922). *Cf. VISA, U.S.A., Inc. v. Birmingham Trust*

[11] Lever Brothers cites the case of Ms. Eileen Farnham of Upper Marlboro, Maryland, who used a bar of British made "Shield" soap that was harsh on her sensitive skin. It was not until after she purchased the soap that she read the "fine print" indicating the soap's foreign origin. This unfortunate incident was plainly the fault of Lever Brothers' conglomerate management. It alone is responsible for marketing different types of soap under the same trademark, and hiding the difference in the "fine print" on the package. Even if Lever Brothers enjoyed the protection of Section 526, how could it expect to protect others from similar mishaps on vacations to Europe? Respondents have taken their "territoriality" theory of trademarks to such an extreme that they feel no responsibility to assure consumers that their trademarks represent consistent quality around the globe.

*Nat'l Bank*, 696 F.2d 1371, 1375 (Fed. Cir. 1982), *cert. denied*, 464 U.S. 826 (1983); *Pepsico, Inc. v. Grapette Co.*, 416 F.2d 285, 289 (8th Cir. 1969). Under established trademark law, a licensor has a duty to control the quality of its licensee's merchandise. *See generally* 3 Callman, *The Law of Unfair Competition, Trademarks and Monopolies*, § 19.50 (Altman 4th ed. 1983).

> The licensor owes an affirmative duty to the public to assure that in the hands of his licensee the trademark continues to represent that which it purports to represent. For a licensor . . . to permit inferior products to be presented to the public under his licensed mark might well constitute a mis-use of the mark.

*Siegel v. Chicken Delight, Inc.*, 448 F.2d 43, 51 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972).

COPIAT and its *amici* argue that consumers are injured by parallel imports because of "free riding" and differing quality products.[12] The only independently prepared study—that submitted to the Customs Service by the Federal Trade Commission staff—disagrees. "[T]here is insufficient basis to conclude that gray market imports are caused by free rider or consumer deception problems." *FTC Comments* 17. The *FTC Comments* concluded (pp. 2, 21) that parallel imports should not be restricted, not only because they benefit consumers but also because "there are alternative private and public remedies for potential free rider or deception problems, if they exist." These obviously include differentiation of trademarks used on foreign and domestic products.

[12] Congress has declined to ban parallel importation of foreign made automobiles despite strenuous claims by American trademark owners that such restrictions on imports are necessary to protect consumers. *See* S.863, 99th Cong., 2d Sess. (1986), 132 Cong. Rec. S6097 (1986); H.R. 2248, 99th Cong., 2d Sess. (1986), 132 Cong. Rec. H9238 (1986); American Free Trade Association Br. 12-13. Wine and liquor trademark owners also had urged Congress to require parallel importers to certify ingredients and methods of production, knowing that the foreign manufacturers would never provide that information to parallel importers. The proposal was rejected as anti-consumer. 132 Cong. Rec. H11080 (1986). *See* American Free Trade Association Br. 10-12; State of Washington Br. 4 n.7.

Several of COPIAT's *amici* argue that consumer health and safety is threatened by parallel importation, but not one federal regulatory agency has adopted this view. Moreover, there is active monitoring of all imports by the Food and Drug Administration. *See* 21 C.F.R. §§ 1-99, 600-799 (1986).



## IV. PARALLEL IMPORTATION IS A PROTECTED INTERNATIONAL TRADE PRACTICE.

COPIAT acknowledges that our major trading partners—Canada, Japan and virtually all of Europe—permit parallel importation. None gives American companies the right COPIAT seeks for its foreign members. COPIAT maintains that what other countries do is irrelevant to the issue before the Court, but COPIAT is asking this Court to presume that Congress intended a drastic result—unilateral trade protection for foreign manufacturers, with tremendous consequences for trade policy, for the economy and for American consumers. As the Federal Trade Commission staff pointed out to the Customs Service during its recent consideration of COPIAT's request for a change in the regulations, elimination of parallel importation poses a "significant risk of harming consumers both in the short run and the long run." *FTC Comments* 22.

The regulations effectuate both the trade laws and the trademark laws.[13] COPIAT is asking this Court to adopt a trademark policy that has been rejected by the rest of the world and enforce a trademark monopoly within this country without regard to whether the foreign and domestic trademark owners are commonly controlled. While some of our trading partners recognize the territoriality of trademarks, none do so where the foreign and domestic trademark owners are related entities, nor does the Common Market.[14] There is no evidence that, in

[13] *See* p. 13, n.9, *supra*.

[14] The *amicus* brief filed by Cetus Corporation (pp. 7-8) tells the Court that our major trading partners permit trademark

passing Section 526, Congress intended to insulate the United States market from competition or to confer a unique benefit on foreign manufacturers.

COPIAT also asserts that the foreign parallel-import cases show that other countries, and not just the United States, are victims of price discrimination by multinational trademark owners. COPIAT Br. 6-7. Of course, there may be discrimination elsewhere. But the United States remains a prime target of such price discrimination. According to the *FTC Comments* (App. A. p. 3, footnote omitted):

> U.S. wholesale prices for products with significant gray market activity were commonly substantially higher than comparable foreign wholesale prices when the dollar was appreciating. Cost differences do not appear sufficient to explain all these wholesale price differences.

Moreover, parallel imports restrain price discrimination (*FTC Comments* 15):

> Perhaps more important than the actual competition effects of gray market goods are the potential competition effects. Manufacturers are not likely to even attempt to price discriminate or collude against U.S. consumers if gray markets can rapidly undercut the discrimination or collusion. Any effort by the Customs Service to make gray marketing more difficult in the future might therefore harm consumers of goods whose prices are now constrained by the threat of gray market imports.

American consumers suffer when any international conglomerate discriminates against the U.S. market, re-

owners to block parallel imports. This is clearly refuted by the cases cited in our opening brief (pp. 39-42), which are ignored by Cetus. Cetus cites patent cases, which are irrelevant, and only one trademark case in support of this proposition. In *E.M.I. Records, Ltd. v. CBS United Kingdom Ltd.*, [1976] E.C.R. 811, [1976] 2 C.M.L.R. 235 (Eur. Ct. Jus. 1976), the U.S. and European trademarks were owned by independent entities. 2 C.M.L.R. at 240. Hence it did not involve parallel importation.



gardless of the nationality of the controlling entity. This has been demonstrated by Consumers Union in its brief as *amicus curiae*, echoing the views expressed to the Customs Service by other consumer groups, including Consumers for World Trade and Public Citizen.[15] Although COPIAT has claimed that its position protects consumers against inferior products or sales without warranties, not a single consumer group supports its position.

## V. THE COURT OF INTERNATIONAL TRADE HAD EXCLUSIVE JURISDICTION.

Section 1581(i)(3) of Title 28 confers exclusive jurisdiction on the Court of International Trade over cases arising out of laws providing for "embargoes or other quantitative restrictions on the importation of merchandise for reasons other than the protection of the public health and safety." Limiting its focus to the single word "embargo," COPIAT contends that this term as "commonly understood" or "commonly thought of" should be restricted to "a limitation on exports imposed by the Administration for reasons of international trade policy" or a so-called "public-policy embargo." COPIAT Br. 14-15. This analysis, questionable even on its own terms, ignores several clear indications that Congress never meant to place any such limitation on this subsection:

*First*, the term "embargo" does not stand alone in the statute, but rather appears as one type of "quantitative

[15] *See* Letter to John M. Walker, Jr. from Doreen L. Brown, dated May 19, 1983, Brief for *Amicus Curiae* Progress Trading Company, Inc. on Appeal at Exhibit C, *COPIAT v. United States* (also included in the Appendix to Memorandum of 47th St. Photo in Opposition to Plaintiff's Motion for Summary Judgment at 56-57, *COPIAT v. United States*); Letter to John M. Walker, Jr. from Jay Angoff, dated July 23, 1983, Brief for *Amicus Curiae* Progress Trading Company, Inc. on Appeal at Exhibit C, *COPIAT v. United States* (also included in the Appendix to Memorandum of 47th St. Photo in Opposition to Plaintiff's Motion for Summary Judgment at 59, *COPIAT v. United States*).

restriction" on imports. This formulation makes clear that any gloss peculiar to the term "embargo" was not meant to limit the statute's reach.

*Second*, the qualifying phrase "for reasons other than the protection of the public health or safety" forecloses any notion that the term "embargo" encompasses only restrictions on imports reflecting "trade policy." If the term "embargo" carried its own inherent limitation to "trade policy," there would have been no need specifically to exclude prohibitions arising from other concerns.

*Third*, the legislative history establishes that Section 1851(i)'s enumeration of several types of laws was an attempt to set out in "generic" fashion those "law[s] of the United States pertaining to international trade" over which the CIT would have cognizance. All earlier bills reflect the understanding that this jurisdiction would cover cases against the government arising from this Tariff Act of 1930. This "generic" reformulation of the statute clearly was not intended, and should not be construed, to remove portions of that Act from the CIT's jurisdiction.

## CONCLUSION

For the foregoing reasons and those stated in our principal brief, the judgment of the Court of Appeals should be reversed.

Respectfully submitted,

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September 22, 1987

# AMICUS CURIAE

# BRIEF

(10) (10) (9)

Nos. 86-495, 86-624 and 86-625



IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

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K MART CORPORATION,
*Petitioner,*
v.

CARTIER, INC., *et al.*

---

47TH STREET PHOTO, INC.,
*Petitioner,*
v.

COALITION TO PRESERVE THE INTEGRITY
OF AMERICAN TRADEMARKS, *et al.*

---

UNITED STATES OF AMERICA, *et al.*,
*Petitioners,*
v.

COALITION TO PRESERVE THE INTEGRITY
OF AMERICAN TRADEMARKS, *et al.*

---

**On Writ of Certiorari to the
United States Court of Appeals
for the District of Columbia Circuit**

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**BRIEF OF AMICUS CURIAE
PROGRESS TRADING COMPANY, INC.**

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## QUESTIONS PRESENTED

1. Should a foreign manufacturer and its wholly-owned American subsidiary be viewed collectively as one company for purposes of Section 526? If so, is it reasonable for the Customs Service to issue regulations denying that foreign controlled company the import protection otherwise available under 19 U.S.C. Section 1526 for trademarked products?

2. If the foreign manufacturer and its domestic subsidiary are not viewed collectively as one company, could Congress, in enacting Section 526, possibly have intended to repeal *pro tanto* the Sherman Act so as to allow those two companies to act together to restrict distribution and control prices for the resale in America of products which the manufacturer has sold abroad?

3. Since the administrative construction of Section 526 by the Customs Service for more than fifty years has been consistent as to companies under common control, while Congress allowed it to remain unchanged, has Congress acquiesced in and ratified that administrative construction?

## TABLE OF CONTENTS

## TABLE OF AUTHORITIES





## TABLE OF AUTHORITIES—Continued

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**BRIEF OF AMICUS CURIAE PROGRESS TRADING COMPANY, INC.**

## INTEREST OF AMICUS CURIAE

By consent of the parties, Progress Trading Company, Inc. ("Progress") submits this *amicus curiae* brief in support of the United States of America and the individual Government and other Petitioners. For many years, Progress has been engaged in the business of importing into the United States for resale genuine trademarked watches which Progress buys abroad. Progress is one of many independently-owned American companies which bring highly desirable trademarked products, manufactured and sold abroad, into the United States in "parallel distribution" or the "gray market."

By competing with companies in the controlled distribution of the foreign manufacturers, Progress and the other independent importers have helped keep prices low and, in doing so, have brought on this litigation. The relationship is direct. This case exists only because of price.

The survival of such companies as Progress is at stake here. If the relief sought by Respondents and granted by the D.C. Circuit Court is allowed, Progress, as recited in an affidavit of its President, Dan Rotta, filed below in the District Court, will be forced out of business. *See* Affidavit of Dan Rotta, dated May 11, 1984, annexed as Attachment D. Also, and of the broadest implications for the general public, high fixed prices will prevail on many lines of trademarked products manufactured abroad.

## SUMMARY OF ARGUMENT

1. Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526 (1982) (hereinafter cited as "Section 526") was not intended to benefit foreign-controlled companies, such as those which organized Coalition to Preserve the Integrity of American Trademarks ("COPIAT"). The D.C. Circuit Court recognized the key relationships here in stating: "This situation typically arises when a foreign



producer creates an American subsidiary that then registers the American trademark." *Coalition to Preserve the Integrity of American Trademarks v. United States*, 790 F.2d 903, 904 (D.C. Cir. 1986). Each such typical parent-subsidiary combination should be viewed as one company for purposes of Section 526, just as it would be so viewed under the Sherman Act, under principles set forth in *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984).

2. Parallel distribution is in the public interest because of the savings it brings to consumers. The savings cannot be measured precisely, but they are substantial, estimated by some at 30 percent or more. The Court below recognized that its ruling may well "deprive American consumers of the benefit" of lower prices. 790 F.2d at 917.

3. If the Court should not view each of the foreign parent-domestic subsidiary combinations as "one company," then each should be viewed as subject to Section 1 of the Sherman Act. Congress never intended in Section 526 to give any special benefits to foreign companies in this area. Nor could it have intended to give a foreign company what has been called "a powerful tool for achieving monopoly conditions" for the distribution of products in this country.

The territorial allocation and price control effects sought by the Respondents are completely out of harmony with basic Sherman Act principles. If Section 526 had extended such benefits to foreign companies, it would *pro tanto* have repealed the Sherman Act. Repeals of the antitrust laws by implication are strongly disfavored.

4. In all respects material here, the Customs Service ("Customs") has been consistent in its view of the imports allowable under Section 526. The "regulations" published in 1923 and 1930 neither regulate nor interpret anything and neither prove nor disprove the consistency. But consistency has existed at least since 1936

as to both the situation where the foreign and domestic registrants of the trademark are the same company, and the situation where the foreign and domestic registrants are parent and subsidiary companies or otherwise under common control.

Any question as to the rule to apply, *i.e.*, the breadth of the exemption, has involved companies which were "related" or "affiliated" but not under common control. In 1953 Customs broadened the exemption to Section 526 by making it apply to such related or affiliated companies. In 1959 it narrowed the exemption to revert to the "subsidiary or common control" rule—a rule which it has maintained continually from 1936 to date.

The effort to secure legislation through H.R. 7234, 86th Cong., 1st Sess. (1959) failed, probably because the language of that bill was so much broader than the regulations at issue here.

## ARGUMENT

### 1. Section 526 Does Not Benefit the Foreign-Controlled Companies Here

The essential purpose of Section 526 is to protect American owners of trademarks, not foreign owners. This section provides:

> [I]t shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States. . . .

19 U.S.C. § 1526 (1980). As Robert A. Bicks, the Assistant Attorney General for the Antitrust Division, said in 1959 in an analysis of Section 526, "[t]he alien is deliberately excluded." *See* Bicks, *Antitrust and Trademark Protection Concepts in the Import Field*, 49 Trade-



Mark Rep. 1255, 1257 (1959) The words of the statute show clearly the intent to benefit American companies, and there is not one word in the congressional debates to suggest any intention to benefit foreign—or foreign-controlled—companies. Indeed, in the Senate the question of whether a foreign company might benefit by appointing an "agent" was summarily answered by assurance to the effect that the statute would not apply. *See* 62 Cong. Rec. 11605 (1922) (statement of Sen. McCumber).

Although there was no detailed development of facts below, the case brought by COPIAT appears clearly to be one for companies which were organized by foreign manufacturers as American companies, but which are under the domination of their foreign parents. While not "agents" in the technical sense of that term, they are, in practicality, essentially that. They are under "common ownership or control" or they would not, through COPIAT, be litigating this case.

The D.C. Circuit Court recognized the common fact pattern underlying the distribution systems at issue here:

> This situation typically arises when a foreign producer creates an American subsidiary that then registers the American trademark.

790 F.2d at 904.[1]

The D.C. Circuit Court referred to COPIAT as "a trade association of United States companies that own

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[1] This typical fact situation, involving a wholly-owned American subsidiary of a foreign company, is quite different from that in the "perfume case(s)." *United States v. Guerlain, Inc.*, 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded*, 358 U.S. 915 (1958), *dismissed with prejudice*, 172 F. Supp. 107 (S.D.N.Y. 1959). Although there the district court found "a single international enterprise" in each of the three cases (155 F. Supp. at 80), two of the three were based on contracts rather than stock ownership, and in the third American Corday owned a majority, but not all of the stock of French Corday.

American trade-marks. . . ." 790 F.2d at 904. It is that, but it is much more. While COPIAT has urged below that this case concerns the statutory protection of owners of United States trademarks and has suggested, as does the word "American" in its name, that this case centers upon the protection of United States trademark owners, nowhere in the courts below did COPIAT present to the court the origin or essential nature of its core organization.

COPIAT was founded as part of an attempt by subsidiaries of foreign companies to establish a new system of price control in the United States and to eliminate what the President of Seiko Time Corporation called "deep discounts" brought about by parallel distribution. *See* Thompson, *Seiko's Battle Against the Grey Market*, Modern Jeweler, October 1983, at 44 (relevant excerpts annexed as Attachment A). In order "to combat" parallel imports, Seiko Time has, among other actions, "[f]ormed, with companies in the photographic, watch, fragrance, tire and crystal industries, COPIAT. . . ." *Id.* At the core of its formation, all of COPIAT's members, or at least those most active in organizing it, appear to have been American subsidiaries of foreign manufacturers, except for Charles of the Ritz, the parent of the French company which is the manufacturer of "Opium" perfume. As such, Charles of the Ritz has the same interests as the foreign-controlled subsidiaries in COPIAT—to control imports to the United States, thereby controlling prices. All of the original officers of COPIAT were employed by members of this core group—subsidiaries of Hasselblad, Seiko (Hattori), and Waterford Crystal, along with Charles of the Ritz. A listing of those officers appearing on COPIAT's letterhead shortly after COPIAT's formation, in a letter of July 13, 1983 which COPIAT submitted to the Treasury Department, filed in the District Court, appears as Attachment B.



Although COPIAT has persuaded many independent American companies to become members since it was organized in 1983, it has never wavered from its original purpose of seeking controlled distribution for foreign manufactured products. Instead, it has continued intensive efforts to that end in the executive, legislative and judicial branches of our government.

Despite the addition of independent American companies to its membership, it is the foreign parent-domestic subsidiary company relationships noted by the D.C. Circuit Court which are significant. 790 F.2d 904. In 1981 one of these relationships received district court attention in *Bulova Watch Co. v. K. Hattori & Co., Ltd.*, 508 F. Supp. 1322, 1329 (E.D.N.Y. 1981). There, the Court examined the relationship between a founding member of COPIAT, Seiko Corporation of America, and its parent, Hattori (later Hattori-Seiko). The Court found that Hattori owned all of the stock of Seiko, which in turn owned all of the stock of Seiko Time, Pulsar Time and SPD Precision, all New York corporations.

The Court further concluded that Hattori was in large part a "monocentric organization" with the center of operations "clearly in the parent's home country." 508 F. Supp. at 1338. With respect to the sales and marketing subsidiaries of Japanese manufacturers, the Court observed that they "in particular may be singularly responsive to the wishes of their parent companies." 508 F. Supp. at 1339. Finally, as to the relationship between Seiko Corporation and Hattori, the Court said it best "from a culinary point of view:"

> Hattori and its American subsidiaries do maintain some independence—about as much as the egg and vegetables in a western omelette.

508 F. Supp. at 1341.[2]

[2] In the appendix to the Respondents' brief on certiorari, dated November 19, 1986, Respondents provide a listing of the "Members of COPIAT." That listing includes the following entry in this form: "Seiko Time Corporation/Hattori Corporation of America."

Obviously, the foreign-controlled companies which organized COPIAT are looking to this case to enable them to "maintain artificially high prices" (790 F.2d at 918) to use words the D.C. Circuit Court used which, significantly, are words so many other courts have used since 1890 in Sherman Act litigation.

We do not, however, endorse the apparent concept of the D.C. Circuit Court that the economic and trading conditions are materially different now than they were in 1922 with respect to the ability of foreign companies to maintain prices if they can have the exclusionary power of Section 526 they seek. Nothing in logic or history points to any meaningful difference in such ability of foreign companies then and now. A ruling that Congress intended to allow the exclusion of parallel goods as COPIAT seeks will have the inevitable effect of enabling foreign manufacturers, acting through their controlled subsidiaries, to engage in territorial allocation and in price-fixing in this country. Such a ruling always would have had such an effect.

We submit that it is appropriate for each of such parent-subsidiary combinations as Hattori and Seiko Time to be viewed legally under Section 526 as one company. Any questions which may once have existed under the rulings of *United States v. Yellow Cab Co.*, 332 U.S. 218 (1947) and *Kiefer-Stewart Co. v. Joseph E. Seagram & Sons, Inc.*, 340 U.S. 211 (1951) were laid to rest in *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984). As the Court stated:

> A parent and its wholly owned subsidiary have a complete unity of interest. Their objectives are common, not disparate; their general corporate actions are guided or determined not by two separate corporation consciousnesses, but one. They are not unlike a multiple team of horses drawing a vehicle under the control of a single driver.

467 U.S. at 771.



Everything the Court observed in *Copperweld* is logically as applicable to Section 526 as it is to Section 1 of the Sherman Act, 15 U.S.C. § 1 (1982).

Since each of these parent-subsidiary combinations should be regarded as a single company, and since that company is essentially foreign because the parent, controlling component is foreign, the ability under Section 526 to exclude goods that company has sold abroad should not be available to it. When language of that Section speaks of "a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered . . . by a person domiciled in the United States . . . ," these are not words intended to confer any benefit to foreign companies. Everything that was said in the Congressional debates confirms that it was only the American individual or company that Congress sought to protect, and then only in a limited and special way.

#### 2. Savings From Parallel Imports Benefit Consumers

This case centers on price, not upon some other kind of vertical restraint which might be legally permissible under the ruling of *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977). The Court in *Sylvania* was concerned with nonprice restrictions. Indeed, the Court there explicitly announced that it was not ruling upon vertical restrictions concerned with price:

> As in *Schwinn*, we are concerned here only with nonprice vertical restrictions. The *per se* illegality of price restrictions has been established firmly for many years and involves significantly different questions of analysis and policy. As Mr. Justice White notes, *post*, at 69-70, some commentators have argued that the manufacturer's motivation for imposing vertical price restrictions may be the same as for nonprice restrictions. There are, however, significant differences that could easily justify different treatment. In his concurring opinion in *White Motor Co.*

*v. United States*, Mr. Justice Brennan noted that, unlike nonprice restrictions, "[r]esale price maintenance is not only designed to, but almost invariably does in fact, reduce price competition not only *among* sellers of the affected product, but quite as much *between* that product and competing brands." 372 U.S., at 268. Professor Posner also recognized that "industry-wide resale price maintenance might facilitate cartelizing." Posner, *supra*, n. 13, at 294 (footnote omitted); see R. Posner, Antitrust: Cases, Economic Notes and Other Materials 134 (1974); E. Gellhorn, Antitrust Law and Economics 252 (1976); Note, 10 Colum. J. L. & Soc. Prob., *supra*, n. 13, at 498 n. 12. Furthermore, Congress recently has expressed its approval of a *per se* analysis of vertical price restrictions by repealing those provisions of the Miller-Tydings and McGuire Acts allowing fair-trade pricing at the option of the individual States. Consumer Goods Pricing Act of 1975, 89 Stat. 801, amending 15 U.S.C. §§ 1, 45(a). No similar expression of congressional intent exists for nonprice restrictions.

433 U.S. at 51, n.18.

It is well known that parallel distribution, under attack here, brings to consumers the benefit of great savings. Almost all camera fans in this country must recognize the vast differences between what Americans now pay for cameras and what they paid before the impact of parallel imports became strong just a few years ago. On December 11, 1982, at a time when this impact had become substantial, the New York Times headlined a feature article with the words *Camera Prices in a Shambles*. *See* N.Y. Times, Dec. 11, 1982, Business Day, at 1, col. 1.

Those favoring restricted distribution and higher prices fought back. Fortune Magazine, in its January 7, 1985 issue, reviewed *The Assault on the Right to Buy Cheap Imports*, referring to actions of the opponents of gray



market sales, including by name COPIAT, in responding to price cuts. Fortune Magazine, January 7, 1985, at 89.

Each of the several public interest organizations which has taken an active interest in this matter has supported parallel importation. In letters to the Treasury Department urging retention of the present regulations, copies of which were filed in the District Court, each organization has addressed the matter of price. Consumers for World Trade, in a letter of May 19, 1983 to John M. Walker, Jr., Assistant Secretary for Enforcement and Operations of the Treasury Department, spoke of parallel importation making genuine trademarked goods available "at a significantly lower cost." Consumers Union, in a letter of June 8, 1983 to Mr. Walker, opposed any change in the regulations on the basis that it "would unduly restrict the availability of goods to American consumers and would reduce competition and increase prices in the marketplace." Public Citizen, in a letter to Mr. Walker dated July 28, 1983, also opposed an invalidation of the present regulations on the basis that "it would necessarily restrict trade and raise prices in this country." These letters are annexed collectively as Attachment C.

While the amount of price savings from parallel importation seems to vary among the many products so imported, and cannot be accurately measured, estimates made publicly seem to place savings in the vicinity of 30 percent. The President of Progress, in an affidavit dated May 11, 1984, stated, "I have been informed of estimates made by others that the price increases would probably average about 30 percent or perhaps more, and I believe such estimates are reasonable." *See* Attachment D.

On November 10, 1983, in the United States Senate, Senator Rudman stated:

> By way of background, Mr. President, this issue involves the right of a variety of small American businesses to import a wide variety of genuine trade-

marked products such as watches and electronic goods. Because many foreign manufacturers attempt to charge artificially high prices for their products in the United States, these small businesses can purchase the genuine goods abroad and resell them here at prices lower than those charged by the foreign manufacturer's American subsidiary or controlled distributor. The benefits of this to the American consumer in the form of greater competition and lower prices are obvious. For example, when the independent distributors introduced price competition, the prices for Seiko watches, Nikon cameras, and Canon cameras all dropped by about one-third. I should stress, at this point, that we are talking about genuine goods, not counterfeit products which is an entirely separate issue.

129 Cong. Rec. S15935 (daily ed. November 11, 1983) (statement of Sen. Rudman).

The court below recognized how its ruling might enable foreign manufacturers to fix prices in the United States:

> The intervenors argue with great vigor that Section 526, as we interpret it, would deprive American consumers of the benefit of imports at prices lower than those maintained by foreign producers through exclusive distribution by their American subsidiaries. That may well be so. They further contend that other nations, particularly our trading partners and competitors, do not permit American producers to maintain prices in their countries in this fashion, and that Section 526 in today's international market constitutes a sort of economic unilateral disarmament. That may also be so. Moreover, it is certainly true that economic and trading conditions have changed a good deal since 1922, and it may now be possible for foreign producers with an exclusive distributorship in the United States to maintain artificially high prices on desirable imports in a manner quite unforeseen sixty years ago.

790 F.2d at 917-18.



### 3. Congress Could Not Have Intended the Result COPIAT Seeks

In enacting Section 526, could Congress have intended to empower foreign companies to control American prices as sought here? In 1959, Robert A. Bicks, the Assistant Attorney General for the Antitrust Division, said:

> A foreigner cannot take advantage of Section 526 —for the alien is deliberately excluded. Could a foreign corporation obtain the benefits of Section 526 by creating a bona fide United States corporation? If it could, both the statutory scheme and the express legislative purpose would be thwarted. For, Congress, which was concerned *only* with the protection of American owners from frauds committed by foreign enterprises, was not saying to these same foreign enterprises: "You also may get the benefits of this legislation by simply forming an American corporation. It is true that there is no question of fraud or of counterfeit marks in your case. It is true that the only result of extending this power to you is to permit you to charge the American consumer much higher prices than those found appropriate by you in other countries—in short, to be able to prevent your foreign prices from being a ceiling or check on your American prices. But we, nevertheless, give you this powerful tool for achieving monopoly conditions for the distribution of your products in this country."
>
> This was not the Congressional design.

Bicks, *Antitrust and Trademark Protection Concepts in the Import Field*, 49 Trade-Mark Rep. 1255, 1257 (1959).

The territorial allocation and price control effects which are inevitable if COPIAT succeeds in this litigation are completely out of harmony with the basic purpose and meaning of the Sherman Act as the Court has always expressed that purpose and meaning. In 1933, the Court, through Chief Justice Hughes, stated: "As a charter of freedom, the act has a generality and adapt-

ability comparable to that found to be desirable in constitutional provisions." *Appalachian Coals v. United States,* 288 U.S. 344, 359 (1933). In 1958 the Court stated: "The Sherman Act was designed to be a comprehensive charter of economic liberty aimed at preserving free and unfettered competition as the rule of trade." *Northern Pacific R. Co. v. United States,* 356 U.S. 1, 4 (1958).

In 1972, this Court again reminded us of the broad, fundamental nature of the Sherman Act, stating:

> Antitrust laws in general, and the Sherman Act in particular, are the Magna Carta of free enterprise. They are as important to the preservation of economic freedom and our free-enterprise system as the Bill of Rights is to the protection of our fundamental personal freedoms.

*United States v. TOPCO Associates, Inc.,* 405 U.S. 596, 610 (1972).

Since the Sherman Act became effective in 1890, the most fundamental restraints it has addressed are price-fixing and division of territories. COPIAT's position would in effect repeal *pro tanto* the Sherman Act to allow a foreign company and its subsidiary acting together ("from a culinary point of view") not only to divide world territories, but also to force American prices upward. It would thus allow the foreign companies and their subsidiaries, acting collectively, to achieve a generally higher level of prices in a segregated U.S. market than they can achieve in foreign markets.

Could Congress have intended any amendment at all to the Sherman Act? Plainly, it could not have. Although the Senate debate was miniscule, it evidenced a concern for free trade and a clear unwillingness to allow an American "agent" of a foreign company to exclude goods, as these subsidiaries of foreign companies now seek to do. Repeal by implication as to any statutory provision is



looked upon with disfavor, and a repeal *pro tanto* of the Sherman Act, "the Magna Carta of free enterprise," would be especially disfavored.

In *United States v. Philadelphia National Bank,* 374 U.S. 321, 350 (1963), the Court considered an argument that the Bank Merger Act, by directing the banking agencies to consider competitive factors before approving mergers, immunized those mergers which the agencies approved from challenge under the antitrust laws. This Court stated that the District Court had correctly rejected that construction of the Act, saying:

> No express immunity is conferred by the Act. Repeals of the antitrust laws by implication from a regulatory statute are strongly disfavored, and have only been found in cases of plain repugnancy between the antitrust and regulatory provisions. (citations omitted)

374 U.S. at 350. The Court also stated:

> It is settled law that "[i]mmunity from the antitrust laws is not lightly implied." People of State of California v. Federal Power Comm'n, 369 U.S. 482, 485, 82 S.Ct. 901, 903-904, 8 L.Ed.2d 54. Cf. United States v. Borden Co., 308 U.S. 188, 198-199, 60 S.Ct. 182, 188-189, 84 L.Ed. 181; United States v. Southern Pac. Co., 259 U.S. 214, 239-240, 42 S.Ct. 496, 501-502, 66 L.Ed. 907. This canon of construction, which reflects the felt indispensable role of antitrust policy in the maintenance of a free economy, is controlling here. For there is no indication in the legislative history to the 1950 amendment of § 7 that Congress wished to confer a special dispensation upon the banking industry. . . .

*Id.* at 348.

In *Carnation Co. v. Pacific Westbound Conference,* 383 U.S. 213 (1966), the Court considered an argument for an implied repeal of the relevant provisions of the Sherman and Clayton Acts by provisions of the Shipping Act

of 1916. The Shipping Act contains an explicit provision exempting rate-making agreements which have been approved by the Maritime Commission, and the respondents urged that the structure of the Act and its legislative history demonstrated a purpose to free the shipping industry from the antitrust laws.

In rejecting this argument, the Court stated:

> We do not believe that the remaining provisions of the Shipping Act can reasonably be construed as an implied repeal of all antitrust regulation of the shipping industry's rate-making activities. We recently said: "Repeals of the antitrust laws by implication from a regulatory statute are strongly disfavored, and have only been found in cases of plain repugnancy between the antitrust and regulatory provisions." We have long recognized that the antitrust laws represent a fundamental national economic policy and have therefore concluded that we cannot lightly assume that the enactment of a special regulatory scheme for particular aspects of an industry was intended to render the more general provisions of the antitrust laws wholly inapplicable to that industry. We have, therefore, declined to construe special industry regulations as an implied repeal of the antitrust laws even when the regulatory statute did not contain an accommodation provision such as the exemption provisions of the Shipping and Agriculture Acts. (citations omitted)

383 U.S. at 217.

Under these principles, any combinations among the entities comprising COPIAT, designed to allocate territories and to raise prices, are clearly forbidden by the Sherman Act. The purpose and effect of such combinations must be viewed as illegal, not only as to the members of COPIAT in the aggregate, but also as to individual foreign manufacturers and their individual wholly-owned American subsidiaries.



**4. Customs Has Been Consistent As To Companies Under Common Control**

The Court below was persuaded that there was a lack of a consistent approach by Customs since the enactment of Section 526. After referring to Customs' "first set of regulations in 1923" and "second set of regulations, promulgated after the 1930 reenactment of Section 526 . . .," the language of the statute, its legislative history and purpose "and the contemporary construction placed upon it" by the "regulations" of 1923 and 1930, the Court concluded that Section 526 cannot be limited in the way which the Customs Service has attempted. 790 F.2d at 913-15. The Court stated that:

> From this review we find that the Customs Service's interpretation of Section 526 does not display the necessary "thoroughness, validity, and consistency" to merit judicial acceptance.

*Id.* at 916. The Court stated further: "Nor has the Customs Service's interpretation since . . . [the adoption of that interpretation] . . . been supported by anything more than poorly articulated and vacillating reasoning." *Id.*

The fact is that in 1923 and 1930, when Customs issued its "contemporary regulations," they did not bring any interpretation or guidance and did not regulate at all. They merely summarized the statutory language, as the Government Petitioners pointed out in their brief in the D.C. Circuit Court. Appellees' Brief at 3, *Coalition To Preserve the Integrity of American Trademarks v. United States*, 790 F.2d 903 (D.C. Cir. 1986). As the D.C. Circuit Court recognized, these first "regulations" do not support the position of the Petitioners. But neither do they support the position of the Respondents, because they are meaningless as an interpretative tool.

However, there has been consistency by Customs; it started more than a half century ago, and is demonstrable from 1936 to date. Antitrust considerations must have been in the minds of Customs officials from at least 1936 because they always held that if both the domestic and foreign branches of a multi-national corporation were a "single company," Section 526 would not bar entry.

Significantly, from the early days, they were also consistent in applying the same rules to wholly-owned subsidiaries and companies under common control, thus effectively treating them as falling within the single company doctrine.

The confusion that is claimed to exist in the Customs' interpretations stems from the treatment of "related companies" or "affiliated companies." The question of how companies that are related or affiliated but not under common control should be dealt with by Customs has indeed been answered by different people in different ways, perhaps because those words have on occasion been used to refer to subsidiaries and companies under common control and at other times used to refer to companies which are related to a lesser degree in that common control is lacking. It is the treatment of this latter group of companies which has varied.

The most cited historical review of Section 526, Atwood, *The Role of the United States Bureau of Customs Import Restrictions on Trademarked Merchandise*, 59 Trade-Mark Rep. 301 (1969),[3] acknowledges that the Government's practice, or policy, "has not remained constant." But the lack of consistency applies only to the

[3] Cited, not only by the Petitioners, but by the Circuit Court (790 F.2d at 915) and by the Respondents in their Brief in the D.C. Circuit Court. Appellants' Brief at 28, *Coalition to Preserve the Integrity of American Trademarks v. United States*, 790 F.2d 903 (D.C. Cir. 1986).



treatment of "related companies" which are *not* under common control. As that historical review correctly states, after discussing the "perfume" cases of the late 1950's and the dismissal of the suit in the Supreme Court:

> This strange turn of judicial events left the Bureau of Customs in an awkward position. Actually, *it had always denied complete exclusionary protection to an American trademark registrant when it knew the importer to be a subsidiary or parent of the foreign user of the trademark.* Prior to 1953, however, the Customs Regulations were not set up to specifically elicit this kind of information. To a degree, then, the position of Customs did agree with Justice, but it had not been developed to deprive any American registrant from full protection merely because there was *some* affiliation between the American firm and a foreign firm.

*Id.* at 307 (emphasis added). The comment that the position of Customs did to a degree agree with that of Justice referred to the view of Justice that the use of Section 526 affiliated firms was, as Mr. Atwood put it, "a form of monopolization condemned by Section 2" of the Sherman Act. *Id.* at 306.

The confusion caused by the problem of how to treat affiliated or related companies has been particularly notable on three occasions: (1) in 1953 when Customs adopted a policy of treating related companies *not* under common control as equivalent to subsidiaries and to those other companies which *were* under common control, Trade-Marks and Trade Names, 19 C.F.R. § 11.14 (1953), *see* 790 F.2d at 915; (2) in 1959 when Customs revoked that policy without adequately explaining its reasons for doing so, *see* Trade-Marks and Trade Names 19 C.F.R. § 11.14 (1960); *cf.* 790 F.2d at 915; and (3) again in 1959 when Congressman Celler, the Chairman of the House Antitrust and Monopoly Subcommittee, sponsored H.R. 7234, 86th Cong., 1st Sess. (1959), seeking to

bring about the enacting of the legislation which the Justice Department had said it favored when it withdrew the "perfume litigation."

Apparently, the Celler bill failed because of overreaching by the drafters of its language. Congressman Celler, famous for his leadership in advocating strong antitrust enforcement, in that bill, which was supported by all interested Departments—Justice, Treasury, State and Commerce—sponsored legislation which would have revised Section 42 and, as the D.C. Circuit Court noted, "would have repealed Section 526 altogether." 790 F.2d at 915. Other provisions would have excluded from protection not only subsidiaries and other companies under common control, but also agents and distributors and those who were "affiliated," including in that word any arrangement whereby the registrant had a continuing contractual relationship with the foreign manufacturer with regard to that mark. *See* Bicks, *Antitrust and Trademark Protection Concepts in the Import Field*, 49 Trade-Mark Rep. 1255, 1260 (1959). The bill did not pass. No wonder.

## CONCLUSION

The D.C. Circuit Court's decision does not take proper account of the purposes for which Section 526 was enacted; it accords improper weight to unimportant aspects of the history of that legislation and of its treatment by the Customs Service; and it takes no account of the consistent treatment by Customs of international enterprises which are in effect "one company," controlled from abroad. In doing so, it produces a result which is not only contrary to the interest of consumers, but also contrary to the views expressed in the relevant congressional debates and contrary to basic principles embodied in our antitrust laws.

The decision of the D.C. Circuit should be reversed in all respects, except as to jurisdiction, and the case re-



manded with directions to enter a final judgment in favor of the Petitioners and against the Respondents with respect both to 19 U.S.C. § 1526 and 15 U.S.C. § 1124.

Respectfully submitted,

WILLIAM F. SONDERICKER
ROBERT L. HOEGLE
FRANK W. GAINES, JR.*
OLWINE, CONNELLY, CHASE, O'DONNELL & WEYHER
1850 K Street, N.W., Suite 890
Washington, D.C. 20006
(202) 659-4871
*Attorneys for Amicus Curiae Progress Trading Company, Inc.*

* Counsel of Record

Dated: February 20, 1987

# ATTACHMENTS

## ATTACHMENT A

**Excerpts from Interview of Robert Pliskin**
**President of Seiko Time Corporation**
**Published in *Modern Jeweler* Magazine of October 1983.**

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"SEIKO'S BATTLE AGAINST THE GREY MARKET"
by Joe Thompson/MJ Editor

"*Seiko is appealing to jewelers to help it stop an industry* threat. For Robert Pliskin, it is an awful irony.

For the past five years, since he took over as president of Seiko Time Corp., the American jeweler's best selling watch has been Seiko.

And yet, over the same span, the most annoying watch to American jewelers has been Seiko too.

The reason: the notorious grey market, the vast perfectly legal loophole in the free market system which allows companies to buy Seiko watches abroad, import them into the United States and sell them at discounted prices.

The result: for every three Seiko watches sold in the U.S. today by Seiko Time, a fourth is sold by a grey market importer, according to best industry estimates. That amounts to about $80 to $100 million that is siphoned from jewelry and department store sales each year.

* * * *

The details of Seiko's grey market battle came from Seiko President Pliskin in an exclusive *Modern Jeweler* interview in his Fifth Ave., New York City office in early August. Elements of Sieko's campaign have been made public before. There was the 'authorized Seiko dealer' program launched in 1980 and the firm's success-

ful legal action last year against Alexander's, a New York City area department store chain.

*   *   *   *

Until now, though, Seiko has held its peace about other actions it has taken to combat what it considers illegitimate traffic in its goods. Those actions include:

• Long legal and lobbying efforts to win exclusive control of its trademark under U.S. law. Seiko Time has enlisted the aid of three major law firms in New York and Washington, D.C. which specialize in trademark law. The cost to the company has been 'hundreds of thousands of dollars in legal fees,' says Pliskin. Currently Seiko Time is unable to gain legal protection for its trademark because it is a subsidiary of a foreign company, Hattori Seiko Co. Ltd. of Japan.

• The closing of Seiko Time accounts who also deal with grey market importers. In the past two years, Seiko Time has dropped six such accounts, costing the company a hefty loss of $6 million annually, according to Pliskin. (The Seiko president revealed the names of the firms to MJ on the grounds that they not be published.) Says Pliskin, 'We don't sell to people who buy from grey marketers.'

• *Formed, with companies in the photographic, watch, fragrance, tire and crystal industries, COPIAT, Coalition to Preserve the Integrity of American Trademarks.* (emphasis supplied)

*   *   *   *

COPIAT's position is that grey marketers are, in effect, free loaders. They make no investment of their own in a product but take advantage of the good name, good marketing, and goodwill built up over the years by trademark owners. 'They are parasites,' says Pliskin, 'who contribute nothing to a trademark, who disrupt the marketplace, who use and abuse trademarks until eventually



they are killed and then they move on to something else.'

*   *   *   *

They damage Seiko Time in many ways, Pliskin points out. They take away business from the firm. They create dissatisfaction among its jeweler customers when Seiko goods turn up in discount outlets. They damage the image of the Seiko brand by placing the product in inappropriate retail outlets at deceptively low prices.

*   *   *   *

. . . They also sour the jeweler's relationship with some customers who complain when they discover cheap Seikos selling in cheap outlets.

*   *   *   *

Finally, the consumer often is attracted to grey market Seikos because of a low retail price."

**ATTACHMENT B**

**(Excerpts from COPIAT letterhead with names of officers)**

COPIAT Coalition to Preserve the Integrity of American Trademarks
1201 Pennsylvania Avenue, N.W.
P.O. Box 761, Washington, D.C. 20044

Robert H. Miller
President
Charles of the Ritz Group Ltd

John Wagner
Executive Vice President
Victor Hasselblad Inc.

Ronald J. Thomas
Vice President & Secretary
Seiko Corporation of America

Walter J. George
Vice President & Treasurer
Waterford Crystal Inc.

David S. Mosteller
Executive Director
Charles of the Ritz Group Ltd

Scott D. Gilbert
General Counsel
Covington & Burling



**ATTACHMENT C**

CONSUMER'S
UNION
Publisher of Consumer Reports

June 8, 1983

John M. Walker, Jr.
Assistant Secretary for
Enforcement and Operations
Room 4308
Department of the Treasury
15th Street and Pennsylvania Ave., N.W.
Washington, D.C. 20220

Dear Mr. Walker:

It is our understanding that you are currently considering to propose an amendment to Customs regulations that would limit the competitive importation of goods bearing registered trademarks for which there exists an exclusive U.S. distributorship.

Consumers Union believes that this proposal, were it to be effected, would unduly restrict the availability of goods to American consumers and would reduce competition and increase prices in the marketplace.

We support exclusion of goods that are not genuine articles entitled to bear a trademark. However, we do not see any legal or economic justification for exclusion of genuine articles. It should not be the role of Customs to enforce private exclusive dealership agreements. Indeed, we believe that many of these agreements are or should be unlawful under U.S. antitrust laws.

I hope that after deliberation you will determine not to issue the draft proposed regulation.

Sincerly,

/s/ Mark Silbergeld
MARK SILBERGELD
Director, Washington Office

MS/rmj

PUBLIC CITIZEN

Congress Watch • Critical Mass Energy Project •
Health Research Group • Litigation Group •
Tax Reform Group

July 28, 1983

Mr. John M. Walker, Jr.
Assistant Secretary for Enforcement
and Operations
Department of the Treasury
Room 4308
15th Street & Pennsylvania N.W.
Washington, D.C. 20220

Dear Mr. Walker:

The Customs Service has proposed to amend 19 C.F.R. § 133.21 in a way which would limit the competitive importation of trademarked goods. The amendment would allow foreign manufacturers, acting through American subsidiaries, to bar imports into the United States of their products which the manufacturers have sold abroad.

As you know, many trademarked foreign products are now available to the American public at discount prices. This discount market is supplied in significant part with imported goods by small companies which buy those goods at various overseas locations where prices are lower than they are in the United States.

Since the proposed amendment would allow the foreign manufacturers, acting through American subsidiaries, to cut off the supplies of the discount market, it would necessarily restrict trade and raise prices in this country.

Congress Watch urges you to reject the proposed amendment. As you know, the present regulation has been in effect since 1972 and is a codification of practices of the Customs Service going back decades. Through



these years, small businesses and the public have had the benefits of competitive imports. Those benefits should not be taken away.

Sincerely,

/s/ Jay Angoff
JAY ANGOFF
Staff Attorney

CONSUMERS (CWT) FOR WORLD TRADE

1346 Connecticut Avenue NW
Washington, D.C. 20036 (202) 785-4835

[Received May 20, 1983]

May 19, 1983

John M. Walker, Jr.
Assistant Secretary for Enforcement
and Operations
Room 4308
Department of the Treasury
15th Street and Pennsylvania Ave., NW
Washington, DC 20220

Dear Mr. Walker:

I am writing to express Consumers for World Trade's (CWT) concern about the proposed change in Customs regulations which deal with the importation of trademarked merchandise. This change would prohibit the parallel importation of any product purchased abroad bearing a registered trademark for which there exists an authorized distributorship in the United States, regardless of whether this distributorship was under foreign or domestic ownership or control.

CWT is a national, non-profit organization established in 1978 which, through education and legislative action respectively, keeps American consumers informed of their stake in international trade policy and speaks out for the interests of consumers when trade policy is being formulated. We believe that this regulatory change by the Customs Office, would have a severe impact on American consumers for the following reasons.:

—It would, as does a regular import quota, limit the availability in the American marketplace of certain trademarked products.



—As a quota, by protecting the distributor from competition, it would artificially increase the price of his product.

—In addition, since the parallel importation of goods with a genuine trademark results in these goods being available to the consumer at a significantly lower cost than those sold through a distributorship, consumers will be deprived of the opportunity to purchase the product of their need or want at an affordable price. This often results in the low and fixed income consumer being affected the most.

American consumers, knowing the advantages or disadvantages accompanying their choice, should have the right to select either the more expensive or the cheaper product bearing the same trademark. CWT, therefore, urges you not to approve the proposed revision to Customs regulations.

Sincerely,

/s/ Doreen L. Brown
DOREEN L. BROWN
President

DLB:k

cc: David Q. Bates
R. Richard Newcomb

**ATTACHMENT D**

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

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Civil Action No. 84-0390

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, CARTIER, INCORPORATED, and CHARLES OF THE RITZ GROUP LTD.,
*Plaintiffs*,

v.

THE UNITED STATES OF AMERICA, DONALD T. REGAN, and WILLIAM VON RAAB,
*Defendants*.

---

AFFIDAVIT

City of New York )
) ss.
State of New York )

DAN ROTTA, first being duly sworn, says:

1. I am President of Progress Trading Company, Inc. ("Progress"), which seeks leave to file a brief in this action as *amicus curaie*. The statements herein are made upon personal knowledge except for Paragraph 7 and the indicated part of Paragraph 6, which are upon information and belief.

2. Progress is an independently-owned domestic company engaged in the business of importing genuine trademarked goods, specifically watches, into the United States



for resale. Progress is unaffiliated with any foreign company or manufacturer whose goods Progress imports.

3. The watches imported by Progress are of identical quality to watches imported from the same manufacturer by Plaintiffs and others. The markings which Progress applies to such watches do not damage the watches nor in any way impair their operation or quality.

4. Progress gives its own warranty for the watches it imports and maintains its own warranty repair facilities staffed by Progress employees and well stocked with an inventory of repair parts. Because of the location and staffing of Progress' warranty repair facility, the warranty service of Progress is provided more promptly than the service offered by subsidiaries of the foreign manufacturers.

5. For over a year, Progress has opposed the efforts of Plaintiffs and others to induce the United States Customs Service to rescind its regulations and thereby prevent the importation into the United States of genuine trademarked goods of foreign manufacture except by their so-called "authorized" subsidiary, parent or affiliated companies in the United States.

6. If the regulations were to be changed as sought by Plaintiffs in this case, it would have a critical impact on the business of Progress. Such change would also have a critical impact on other independent American importers in that scores, if not hundreds, of independently-owned small businesses engaged in importing genuine trademarked goods from abroad for resale in the United States would at a minimum be seriously injured, and I believe all, or almost all, of them would be forced out of business.

7. As a result of the competition from independent American importers such as Progress, American consumers are paying lower prices for foreign-manufactured

watches. If the Customs rules were rescinded as sought by Plaintiffs, such competition would be eliminated and prices of foreign-manufactured watches and other foreign-manufactured trademarked goods would increase substantially. I have been informed of estimates made by others that the price increases would probably average about 30 percent or perhaps more, and I believe such estimates are reasonable.

/s/ Dan Rotta
DAN ROTTA

Subscribed and sworn to before me this 11th day of May, 1984.

/s/ Ivy A. Schneiderman
IVY A. SCHNEIDERMAN
Notary Public

My commissions expires March 30, 1985.

# AMICUS CURIAE

# BRIEF

No. 86-495, 86-624, 86-625



IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

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THE UNITED STATES OF AMERICA;
K MART CORPORATION; and
47TH STREET PHOTO, INC.,
*Petitioners,*

v.

COALITION TO PRESERVE THE INTEGRITY OF
AMERICAN TRADEMARKS;
CARTIER, INC.; and CHARLES OF THE RITZ
GROUP, LTD.,
*Respondents.*

---

**ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT**

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**AMICUS CURIAE BRIEF OF THE AMERICAN FREE TRADE ASSOCIATION**

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**Counsel of Record*

February 20, 1987

23pp

## QUESTION PRESENTED

Is a Customs Service regulation, which permits the importation of genuine foreign-manufactured merchandise bearing a trademark identical to a U.S. registered trademark when (1) the foreign and U.S. trademark are owned by the same person; (2) the foreign and U.S. trademark owners are subject to common ownership or control; or (3) the trademark was applied under authorization of the U.S. trademark owner, a valid interpretation of Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, based upon the legislative history of the Act and its 1922 predecessor and upon approximately fifty years of administrative enforcement of this policy and Congressional acquiescence and re-affirmation?

## PARTIES TO THE PROCEEDING

The petitioners are the United States of America, K mart Corporation and 47th Street Photo, Inc. The respondents are Coalition to Preserve the Integrity of American Trademarks (COPIAT), Cartier, Inc., and Charles of the Ritz Group, Ltd. The petitions have been consolidated for consideration by the Court, upon Motion of petitioner United States of America.

## TABLE OF CONTENTS





## TABLE OF AUTHORITIES

IN THE

# Supreme Court of the United States

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---

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v.

COALITION TO PRESERVE THE INTEGRITY OF
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CARTIER, INC.; and CHARLES OF THE RITZ
GROUP, LTD.,
*Respondents.*

---

**ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT**

---

## AMICUS CURIAE BRIEF OF THE AMERICAN FREE TRADE ASSOCIATION

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The American Free Trade Association ("AFTA") respectfully submits this brief as amicus curiae in support of the petitioners the United States of America, K mart Corporation and 47th Street Photo, Inc.[1]

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[1] Pursuant to Rule 36.1 of this Court, consent to the filing of this brief has been granted by all parties. Their consents have been filed with the Clerk.

## INTEREST OF AMICUS CURIAE

The American Free Trade Association is an incorporated trade association of independent American importers, distributors and wholesalers of parallel import fragrances, colognes, and health and beauty aids, such as shampoos, soaps, and other items commonly purchased in drug stores. Many of the Association's members are small businesses. They are located throughout the United States and employ more than 1,500 people. AFTA members in turn supply other distributors, wholesalers, and numerous, well-known retail outlets which employ many thousands more.[2] Many of the Association's members have been in the parallel import business for more than a dozen years.

Parallel imports, also known as gray market goods, are genuine trademarked consumer products, such as fragrances, 35mm cameras, electronic products, and watches, which are typically manufactured abroad and imported by independent American importers rather than by "authorized" U.S. importers and distributors. Parallel imports exist because the manufacturers, for reasons of their own, seek significantly higher prices for their products in the United States than elsewhere in the world. They do this by creating wholly-owned or controlled subsidiaries in this country, designating those companies as the exclusive "authorized" importers and distributors for their products here, and refusing to sell to retailers who will not maintain the higher prices for the products.

The obvious result in a free enterprise, free trade market is that independent American importers can purchase the same products overseas at the world price, often even directly from the manufacturers' "authorized" distributors abroad. The foreign manufacturers' price differential for the U.S. market is so great that, even after paying shipping costs and U.S. Customs duties, the parallel importer can offer the identical articles for twenty to forty percent less than the U.S. "authorized" distributor.

[2] For example, one of the drug store chains supplied by Association members has 1,500 stores with many thousands of employees and annual sales in excess of $2 billion.



The result is a saving to American consumers amounting to billions of dollars a year. Another result is the availability of popular products to a much wider spectrum of Americans who do not live in the large cities where the exclusive authorized stores are generally located. The parallel import trade also serves as an independent bulwark against unrestrained increases in the domestic prices of imported consumer goods as compared to prices available worldwide.

A substantial American industry of importers, distributors, retailers, and catalog-showroom merchandisers, with hundreds of thousands of employees, serves the millions of American consumers who buy these popular, foreign-made products at the prices they would pay if they could shop for them abroad. The retailers of parallel imports are responsible for total consumer sales of $100 billion a year. The parallel import industry also makes an enormous investment in the good will of trademarked products through its own widespread advertising and marketing of these products.

AFTA's interest in this case is very real, immediate and direct. If the decision below is not reversed, parallel importation will be effectively eliminated. AFTA's members, and all other independent U.S. importers and distributors of parallel imports, will be out of business. Retailers that sell parallel goods will also be severely injured. Because of the severity of the potential consequences, AFTA participated as an amicus curiae in this case before both the district court and the court of appeals and filed an amicus curiae brief in support of the petitions for a Writ of Certiorari to the United States Court of Appeals for the District of Columbia. AFTA has also participated as an amicus curiae in other cases which have considered the validity of the Customs Service regulation, *Vivitar Corp. v. United States*, 593 F. Supp. 420 (C.I.T. 1984), *aff'd*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, No. 85-411 (October 13, 1986), and *Bell and Howell: Mamiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983), *vacating and remanding*, 548 F.Supp. 1068 (E.D.N.Y. 1982).

## STATEMENT OF THE CASE

The law and policy of the U.S. government have permitted parallel importation for more than half a century. Customs Service regulations, based upon the Tariff Act of 1922 and the Tariff Act of 1930, 19 U.S.C. 1526, have permitted parallel importation only under specific, narrowly-defined circumstances. The current regulation, in place since 1972, permits parallel importation only when the foreign and U.S. trademark holders are (1) the same company or (2) under common ownership or control, or (3) where the U.S. trademark owner has authorized the placing of the mark on the product. 19 C.F.R. 133.21(c). In these cases, the regulation does not permit a trademark holder to block the entry of parallel imports.

The courts have also long upheld parallel importation despite numerous challenges under trademark and tariff laws.[3] In fact, the court of appeals below is the first court ever to hold that Section 526 of the Tariff Act of 1930, 19 U.S.C. 1526, requires the exclusion of all parallel imports.

The respondents commenced this action before the district court, seeking declaratory and injunctive relief, based on their claim that the Customs regulation was inconsistent with the Tariff Acts of 1922 and 1930 and the Lanham Trademark Act of 1946, 15 U.S.C. 1124. *Coalition to Preserve the Integrity of American Trademarks v. United States,* 598 F. Supp. 844 (D.D.C. 1984). The district court rejected the respondents' claim and upheld the validity of the regulation. The district court found that the Customs Service's long-standing inter-

[3] *See Bell and Howell: Mamiya Co. v. Masel Supply Co.,* 719 F.2d 42 (2d Cir. 1983), *vacating and remanding,* 548 F. Supp. 1068 (E.D.N.Y. 1982); *Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp.,* 707 F.2d 1054 (9th Cir. 1983); *Lever Brothers Co. v. United States,* No. 86-3151 (D.D.C. Jan. 21, 1987) (order denying preliminary injunction); *Diamond Supply Co. v. Prudential Paper Products Co.,* 589 F. Supp 470 (S.D.N.Y. 1984); *El Greco Leather Products Co. v. Shoe World, Inc.,* 599 F. Supp. 1380 (E.D.N.Y. 1984), *rev'd on other grounds,* ___ F.2d ___ (2d Cir. 1986); *Parfums Stern, Inc. v. United States,* 575 F. Supp. 416 (S.D. Fla. 1983); *United States v. Guerlain,* 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded,* 358 U.S. 915 (1958), *dismissed,* 172 F. Supp. 107 (S.D.N.Y. 1959).



pretation of Section 526 of the Tariff Act was reasonable and supported by legislative history, judicial decisions, and legislative acquiescence. *Id.* at 852.

On appeal, the court below reversed the district court on the ground that the Customs Service regulation is inconsistent with Section 526 of the Tariff Act and therefore invalid. *Coalition to Preserve the Integrity of American Trademarks v. United States,* 790 F.2d 903, 913 (D.C. Cir. 1986). Rejecting the reasoning of the district court in this case and of the U.S. Court of International Trade and the Court of Appeals for the Federal Circuit, both of which had upheld the Customs regulation in the *Vivitar* case, the court below held that Section 526 requires the exclusion of all parallel imports regardless of the relationship between the foreign and U.S. trademark holders.[4] Soon after the decision below, another court of appeals also upheld the regulations. *Olympus v. United States,* 792 F.2d 315 (2d Cir. 1986).[5] This was argued to the court below in a motion for rehearing by the petitioners, but the court below nonetheless denied rehearing.

## ARGUMENT

The American Free Trade Association wholeheartedly agrees with the petitioners that the court of appeals below erred in overturning the Customs regulation. The petitioners' arguments persuasively demonstrate three grounds for upholding the regulation. First, the Customs Service regulation is required by the legislative intent behind Section 526, given the circumstances of its enactment, and at the very least is a reasonable exercise of the agency's enforcement discretion. Second, Customs' consistent and longstanding enforcement of its regulation, in substantially the same form for fifty years, legitimates the agency's interpretation of Section 526. Finally, decades of Congressional acquiescence to and re-affirmation of the regu-

[4] However, the court of appeals denied respondents' demand for a permanent injunction (*id.* at 918), and upon motion of petitioners United States of America and K mart, the court of appeals also stayed issuance of its mandate pending the filing of petitions for certiorari to this Court.

[5] *See also Lever Brothers, supra* n. 3 (district court finds Customs Service regulation to be a reasonable exercise of Agency's enforcement discretion).

lation indicate Congress' acceptance of the Customs Service interpretation of Section 526 and deference to Customs' expertise.

Given the exhaustive legislative history and in-depth analysis of the case law presented below, which undoubtedly will be addressed again by the parties before this Court, it is unnecessary for AFTA to review these issues in great detail for the Court. However, the court of appeals' decision contains a number of deficiencies which AFTA seeks to emphasize to this Court. Furthermore, the Customs regulation protects vital First Amendment concerns which, though not raised by the petitioners nor addressed by the court below, have been raised by AFTA and merit consideration.

### A. The Court Of Appeals Decision Misconstrues The Legislative Intent Behind Section 526

The first shortcoming of the court of appeals' decision below is its distorted analysis of, and the erroneous conclusions that it draws from, the legislative history behind Section 526. According to the court, "our review of the circumstances prompting the enactment of Section 526 and its legislative history persuade [sic] us that the statute embodies a purpose as sweeping as the terms its drafters employed." 790 F.2d at 909. By selecting isolated portions of the Floor debate, the court creates the impression that Congress intended a broad application of Section 526. However, the petitioners have demonstrated extensive support from the legislative history for Customs' interpretation of the statute. There is more than enough evidence in the record to conclude that Congress intended to limit the scope of Section 526 to protect only independent U.S. trademark holders. Accordingly, Customs' regulation is not only reasonable, it is a necessary interpretation of Congress' intent for Section 526, given the circumstances surrounding its enactment.

At the very least, analysis of the legislative history demonstrates that the Congressional intent as to the scope of Section 526 is unclear, despite the confident assessment of the court below that the legislative purpose is evident. The debate



surrounding the bill was brief, approximately ten minutes long, and raises substantial doubt about whether many legislators understood the ramifications of the proposed statute. However, the one conclusion that is clear, and the one that the court of appeals' decision largely ignores, is the fact that Section 526 was enacted by Congress primarily to reverse the Second Circuit's decision in *A. Bourjois & Co. v. Katzel,* 275 F. 539 (2d Cir. 1921).[6]

In *Katzel,* an independent American company purchased all the U.S. rights to a trademark for a facepowder from the French manufacturer and trademark holder, for what was at that time an enormous sum of money. After the American company had developed extensive goodwill in this country as the source of the product, the French manufacturer sold the facepowder to another American company, which then imported the product into the United States and sold it under the identical trademark. The first American company sued the second for trademark infringement, and the Second Circuit held that the U.S. trademark owner had no cause of action against the unauthorized importation of genuine trademarked goods. 275 F. at 543.

Congress promptly enacted Section 526 in order to reverse the Second Circuit's decision and protect American trademark holders against the circumstances which had occurred in the *Katzel* case, essentially a fraud perpetrated by the foreign trademark holder against the independent U.S. company to which it had sold all its U.S. rights to the trademark. However, the facts of *Katzel* do not conflict with the regulation at issue in this case. *Katzel* did not involve the situation in which the U.S. trademark holder and the foreign trademark holder are related parties. In the latter situation, the risk of fraud upon the U.S. trademark holder by the foreign trademark holder is nonexistent, and there is no need for the trademark protection urged by the respondents. Ignoring this crucial impetus for the statute and the numerous statements in the record supporting Customs' interpretation, the court below instead strings together isolated portions from the Floor debate and concludes that Congress intended the sweeping and unnecessary application of Section 526.

[6] *Katzel* was subsequently reversed by the Supreme Court after Congress enacted Section 526. *A. Bourjois & Co. v. Katzel,* 260 U.S. 689 (1923).

Moreover, the court of appeals decision leads to absurd results. The decision, if left standing, would give greater protection to the U.S. affiliates of foreign manufacturers than American companies receive in foreign markets overseas and would reward American companies who move their manufacturing facilities overseas to take advantage of Section 526, thereby depriving American citizens of jobs. The court's decision would also favor foreign conglomerates over a substantial and growing U.S. industry of importers and retailers of parallel goods and would deprive American consumers of billions of dollars in savings on genuine, foreignmade goods. These are not, contrary to the opinion of the court below, results which only the Congress should address.

The Court should also note that, given the protectionist fervor sweeping Congress in the 1920's and 1930's, it is highly unlikely that Congress intended to be so generous to foreign conglomerates. Moreover, since parallel importation was not widely known during the 1920's and 1930's and since multinational companies were far less common than today, it is also unlikely that Congress even considered these ramifications. Since the legislative history behind Section 526 contains substantial support for Customs' regulation, or at the very least, shows that Congress' intent was ambiguous, Customs' regulation is a reasonable interpretation of the statute.

**B. Congressional Acquiescence To Customs' Enforcement Constitutes Tacit Approval Of The Regulation**

For fifty years, Congress has been aware of Customs' enforcement of Section 526 and has left the Customs regulation undisturbed. Nevertheless the court of appeals rejected the petitioners' argument, which was adopted by both the *Vivitar* and *Olympus* courts, that Congress has acquiesced in the Custom Service's consistent and longstanding interpretation of Section 526. Instead, the court finds that "the Framers deliberately made the passage of legislation difficult" and therefore concludes that Congress' inaction signifies nothing. 790 F.2d at 917. The court's conclusion was in error.

Congress has revised Section 526 on numerous occasions in the last fifty years. Each time, although aware of Customs' interpretation of the statute, Congress has not altered the statute to overturn the Customs regulation nor expressed displeasure with Customs' enforcement of the statute. In 1954, for example, when considering amendments to Section 526, Congress was informed that the Customs Service permitted parallel importation. Congress specifically noted Customs' practice and amended other provisions of Section 526, yet chose not to revise the statute to prohibit parallel importation. *See Registration and Protection of Trade-marks: Hearing on S. 2540 Before a Subcommittee of the Senate Committee on the Judiciary,* 83rd Cong., 2d Sess. 96 (1954) (letter of Thurston B. Morton, Assistant Secretary of State.)



More than two decades later, in connection with amendments to Section 526 in the Customs Procedural Reform and Simplification Act of 1978, Pub. L. No. 95-410, Section 211, 92 Stat. 888, 903, the House Ways and Means Committee expressly recognized Customs' longstanding regulations permitting parallel importation. H.R. Rep. No. 621, 95th Cong., 1st Sess. 27 (1977). Again, Congress left Customs' regulation in place. These instances demonstrate that Customs' enforcement of Section 526 has not contravened Congress' intent and, in fact, has been supported by the Congress. *See Haig v. Agee,* 453 U.S. 280, 297-298 (1981) (where Congress acts in related area with awareness of and no evidence of intent to repudiate longstanding administrative construction, Congress is read to have adopted that interpretation); *Red Lion Broadcasting Co. v. FCC,* 395 U.S. 367, 381 (1969); *Grocery Manufacturers of America, Inc. v. Gerace,* 755 F.2d 993, 1000 (2d Cir.), *cert. denied,* 106 S. Ct. 69 (1985).

Moreover, the evidence of continued Congressional intent is not merely negative, it is also positive. Congress has in three recent instances expressly demonstrated its support for parallel importation. Since parallel importation is made possible only by the Customs regulation at issue here, these instances represent direct Congressional support for the regulation.

The first recent instance occurred during Congressional consideration of the Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, Chap XV, 98 Stat. 2178. While parallel imports are genuine trademarked articles and not counterfeits,

opponents of parallel imports have often tried to confuse the issue by blurring the distinction. Nevertheless, during debate on the 1984 Act, a joint statement was made by the Senate and House managers of the bill which explicitly distinguished parallel imports from counterfeits:

> The term "counterfeit mark" in this bill also excludes the marks on so called "parallel imports" or "gray market" goods—that is, trademarked goods legitimately manufactured and sold overseas and then imported into the United States outside the trademark owner's desired distribution channels. . . . Current Treasury Department regulations permit the importation of such goods when the foreign and domestic owners of the trademark are under common ownership and control. . . . This regulation is now being challenged in the courts. . . . Regardless of the status of "parallel imports" or "gray market" goods under the Treasury regulations, however, the sponsors do not consider the goods to bear "counterfeit marks" for purposes of this legislation, since the marks on these goods are placed there with the consent of the trademark owner or of a person affiliated with the trademark owner.

130 Cong. Rec. H12076, 12079 (daily ed. October 10, 1984) (Joint Statement of Rep. Hughes and Sen. Mathias) (citations omitted). This language clearly constitutes Congressional awareness and approval of parallel importation and, therefore, by implication, of the long-standing Customs regulation which makes parallel importation possible.

In a second recent instance, the House of Representatives voted overwhelmingly to remove the Mrazek amendment from the 1986 Omnibus Appropriations Continuing Resolution which—under the guise of health and safety—would have ended the parallel importation of wine and liquor. 132 Cong. Rec. H11080 (daily ed. October 15, 1986). The amendment would have required all imported wine and liquor to be accompanied by the manufacturer's certification of ingredients and methods of production. *Id.* (statement of Rep. Mrazek). Because manufacturers would have provided this information



only to "authorized" importers of these products, parallel importation of wines and liquors would have been effectively banned by the amendment. *Id.* at 11082 (statement of Rep. Frenzel). The amendment was inserted in the Continuing Resolution during House Appropriations Committee markup without debate. During House-Senate Conference Committee consideration of the resolution, the Senate members voted to reject it.

Opponents of the amendment pointed out that it was really a ruse to end parallel importation and thus to obtain a monopoly for "authorized" importers. If the amendment's sponsors were truly interested in safety, the opponents argued, they would join with parallel importers who support independent laboratory testing, which is a more effective method of ensuring that imported food products meet United States health and safety standards. *Id.* at 11083 (statement of Rep. Gray).

During the subsequent debate on the removal of the amendment, numerous Congressmen expressed their strong support for parallel importation. For example, Representative Frenzel, a ranking member of the Ways & Means Committee, which has jurisdiction over the Tariff Act, stated:

> There are parallel importers who are now offering a better price for consumers of imported beverages. There are State-owned liquor stores who are seeking to save State funds by purchasing parallel imports. It gives them a better markup. These people are providing some competition to those authorized dealers who would otherwise have a monopoly, and would under the Mrazek amendment have a monopoly of sales of these items in the United States.
>
> . . . .
>
> I believe that in prohibiting parallel imports we would create a precedent that would aid those who are attempting to eliminate all parallel imports in the future. I am sure that that is a precedent that most of us do not want. Gray market purchases have not caused substantial business losses for authorized

> dealers. They have given many consumers an opportunity to purchase goods that they would not otherwise be able to purchase.

*Id.* at 11082.

Later on in the debate, Representative Gray, Chairman of the House Budget Committee, stated:

> The fact is, Mr. Speaker, that this a provision to establish a monopoly, plain and simple. It has absolutely no impact on health or safety. It would effectively prohibit any importer other than the manufacturers exclusive representative from selling distilled spirits in the United States.
>
> . . .
>
> This amendment also has the potential of setting a very dangerous precedent by protecting a certain class of manufacturers and importers, where in fact we do not treat others, most notably in the area of sporting goods, electronic items, and literally millions of dollars in other imported items.

*Id.* at 1083.

Following the extensive debate on the House Floor, the House of Representatives rejected the amendment by the overwhelming vote of 297 to 113. *Id.* at 11085.

Thus, both the Senate—whose members rejected the amendment during the Conference Committee deliberations—and the House of Representatives—which subsequently voted overwhelmingly to remove the amendment—refused to permit "authorized" importers to create a monopoly on the importation of wine and liquor. By rejecting the Mrazek amendment, Congress demonstrated its support for parallel importation.

In another instance last year, both the House and Senate approved legislation regulating, yet still permitting, the parallel importation of foreign-manufactured automobiles. National Highway Traffic Safety Administration Act of 1985, S. 863, 99th Cong., 2d Sess., 132 Cong. Rec. S6097 (daily ed. May 15,



1986); H.R. 2248, 99th Cong., 2d Sess., 132 Cong. Rec. H9238 (daily ed. October 6, 1986). The legislation was designed to ensure that all gray market automobiles imported into the United States comply with U.S. safety and emission standards. Although the legislation passed by both Houses was substantially the same on the gray market issue, the differences between the bills were never resolved in Conference Committee, and the legislation has not yet been enacted into law. Nevertheless, in this instance, as in the two other contemporary instances, Congress expressly demonstrated its continued intent that parallel importation should remain a legal channel of free trade and, therefore, that the Customs regulation which makes parallel importation possible should continue in force as well.

### C. The Customs Regulation Is A Reasonable Effectuation of the Tariff Act Because It Promotes Important First Amendment Values

Finally, the regulation at issue here is a reasonable interpretation of Section 526 because it promotes vital First Amendment concerns. If Section 526 is accorded the sweeping scope urged by the respondents and approved by the court of appeals below, truthful commercial speech (*i.e.*, the trademark applied to the goods) attesting to the source of the goods, will be unnecessarily restricted. Because the Customs regulation protects commercial free speech interests, the Court should interpret the statute so as to uphold the regulation.

It is well settled that the First Amendment protects commercial speech from unwarranted governmental regulation. *See Virginia Pharmacy Board v. Virginia Citizens Consumer Council, Inc.*, 425 U.S. 748, 761-762 (1976); *see also, Central Hudson Gas & Electric Corp. v. Public Service Commission*, 447 U.S. 557, 561-562 (1980). While the Court has held that the Constitution "accords less protection to commercial than to other constitutionally safeguarded forms of expression," *Folger v. Youngs Drug Products Corp.*, 463 U.S. 60, 64-65 (1983), the Court has consistently invalidated restrictions designed to deprive consumers of accurate information about products and services legally offered for sale. *See e.g., Bates v. State Bar of Arizona*, 433 U.S. 350 (1977); *Virginia Pharmacy Board, supra.*

Because the enforcement of trademark rights could lead to restrictions on truthful commercial speech, courts have recognized that trademark rights should not be construed in a manner that would conflict with First Amendment interests. *See Stop the Olympic Prison v. U.S. Olympic Committee,* 489 F.Supp. 1112, 1124 (S.D.N.Y. 1980). *See also, Triangle Publications, Inc. v. Knight-Ridder Newspapers, Inc.,* 445 F.Supp. 875, 884 (S.D. Fla. 1978), *aff'd on other grounds,* 626 F.2d 1171 (5th Cir. 1980) (when Copyright Act and First Amendment work at cross-purposes, First Amendment interests prevail). *But see International Olympic Committee v. San Francisco Arts & Athletics,* 789 F.2d 1319 (9th Cir.), *cert. granted,* ____ U.S. ____, 93 L.Ed.2d 280 (1986).

Accordingly, protected commercial speech may be restricted only if the government's interest in doing so is substantial, the restrictions directly advance the government's asserted interest, and the restrictions are no more extensive than necessary to serve that interest. *Central Hudson,* 447 U.S. at 556. In this case, the legislative history reveals a substantial government interest which is served by Section 526 as interpreted by the Customs Service. However, no equivalent substantial governmental interest is furthered by the interpretation of Section 526 offered by the respondents and upheld by the court of appeals. Customs' interpretation of Section 526 protects independent American purchasers of exclusive U.S. trademark rights from the kind of fraud perpetrated by the foreign manufacturer and trademark holder in *Bourgois v. Katzel, supra.* Since *Katzel*-type fraud cannot occur when the U.S. trademark holder and the foreign trademark holder are related parties, no substantial interest is furthered by granting the commonly-owned U.S. trademark holder the right to exclude genuine trademark goods. In fact, as detailed above, granting such a right to commonly-owned trademark holders leads to absurd results. *See infra,* p. 8. Thus, the court of appeals' sweeping interpretation of Section 526 is more extensive than necessary to serve the government's interest.

This Court's recent decision in *Posadas de Puerto Rico Associates v. Tourism Company of Puerto Rico* does not undermine this conclusion. ____ U.S. ____, 54 U.S.L.W. 4956



(1986). In *Posadas,* the Court considered a First Amendment challenge to a Puerto Rican statute which restricted casino advertising directed to residents of Puerto Rico. The Court held in a 5-4 decision that the greater power to ban gambling entirely—which the legislature chose not to assert—"necessarily includes the lesser power to ban advertising of casino gambling." 54 U.S.L.W. at 4961.

Unlike *Posadas,* however, the First Amendment commercial speech interests present here are not asserted as a constitutional challenge to the validity of the statute. Instead, the First Amendment interests are useful in determining the reasonableness of the Customs regulation as an interpretation of the statute. Because the regulation minimizes the detrimental effects on First Amendment values that result from a broad reading of Section 526, the Customs regulation is a valid interpretation of the statute. In fact, in *Posadas,* the Court found that it was bound to abide by the narrowing construction given to the statute by the Puerto Rican trial court and approved *sub silentio* by the Supreme Court of Puerto Rico. 54 U.S.L.W. at 4959. Here, the Customs regulation serves the same purpose; it acts as a narrowing construction of the statute and makes the statute more palatable with respect to First Amendment values.[7] Accordingly, since the Customs regulation helps to protect important First Amendment interests, the Court should find that the Customs regulation is a reasonable interpretation of Section 526.

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[7] Moreover, in *Posadas,* the legislature's intent to discourage gambling by its own citizens while simultaneously promoting gambling by tourists was clear and direct. 54 U.S.L.W. at 4960. Here, Congress' intent for the scope of Section 526 is muddied, and therefore, the Customs Service's interpretation of the statute, which protects vital First Amendment interests, deserves substantial weight.

## CONCLUSION

For the foregoing reasons, in addition to all those presented by petitioners, the American Free Trade Association respectfully urges that the court of appeals' decision below be reversed.

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February 20, 1987

# AMICUS CURIAE

# BRIEF

(12) (12) (11)

No. 86-495 86-624 86-625



IN THE
# SUPREME COURT
OF THE
UNITED STATES

## OCTOBER TERM, 1986

K MART CORPORATION,
*Petitioner,*
v.
CARTIER, INC., ET AL.,
*Respondents.*

47TH STREET PHOTO, INC.,
*Petitioner,*
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.,
*Respondents.*

UNITED STATES OF AMERICA, ET AL.,
*Petitioners,*
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.,
*Respondents.*

**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia**

## BRIEF FOR AMICUS CURIAE STATE OF WASHINGTON IN SUPPORT OF PETITIONERS

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13 PP

## QUESTION PRESENTED

Whether the invalidation of 19 CFR 133.21(c) is consistent with the intent of Congress as expressed in the antitrust laws.

## TABLE OF CONTENTS



## TABLE OF AUTHORITIES

## TABLE OF AUTHORITIES *(continued)*





No. 86-495 86-624 86-625

IN THE

# SUPREME COURT

OF THE

UNITED STATES

**OCTOBER TERM, 1986**

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*Respondents.*

**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia**

**BRIEF FOR AMICUS CURIAE STATE OF WASHINGTON IN SUPPORT OF PETITIONERS**

## INTEREST OF AMICUS CURIAE

Washington, along with 17 other states,[1] controls the distribution and sale of all liquor within its borders, as authorized by the Twenty-first Amendment to the United States Constitution. This is accomplished through a state

[1]Alabama, Idaho, Maine, Michigan, Mississippi, Montana, New Hampshire, North Carolina, Ohio, Oregon, Pennsylvania, Utah, Vermont, Virginia, West Virginia, and Wyoming. Montgomery County, Maryland is also a control jurisdiction.

agency, i.e., the Washington State Liquor Control Board.[2] Under the Washington system, all spiritous liquor, foreign and domestic, and some foreign produced wines are purchased by the Board for subsequent resale to the public through 380 state retail outlets.

Approximately one year ago, in response to the artificially high prices being maintained in the United States by the "authorized" United States importers of certain trademarked liquor products, Washington began purchasing those products on the parallel market at savings averaging 15% to 20% per case.

With these parallel purchases, it is estimated that the citizens of Washington have saved to date, in the aggregate, approximately $4.9 million by reason of the reductions from the retail prices they would have paid had this trademarked liquor been purchased only from the foreign manufacturers' exclusive "authorized" United States importers.

Washington has plans to continue, and expand, its purchases of these parallel imports as long as artificially high prices are maintained by "authorized" importers in the United States market vis-a-vis the world price of these goods.

The effect of an affirmance by this Court of the decision below would be to end the ability of Washington, and the potential ability of many other states, as well, to obtain for their citizens the best available world price for imported liquor.

The major concern of Washington is that a decision invalidating 19 C.F.R. § 133.21(c) will bestow enormous economic power on foreign liquor manufacturers in a manner and to an extent unintended by Congress when the "Genuine Goods Exclusion Act" ("Section 526") was enacted.[3] This power will then be used, as it has been in the past, to bring about international price discrimination against the United States market, to the detriment of both

[2]See Title 66 of the Revised Code of Washington.

[3]The "Genuine Goods Exclusion Act" is Section 526 of the Tariff Act of 1930, and is codified at 19 U.S.C.S. § 1526.



the American consumer individually and the American balance of payments in the aggregate.

While there are many other factors which would warrant the Court in sustaining the validity of 19 C.F.R. § 133.21(c), we will attempt to avoid duplicating the other briefs and will, instead, concentrate on the relationship between the proper construction of Section 526 and the intent of Congress in enacting the Federal antitrust laws, more specifically the Sherman Act.[4]

## ARGUMENT

### Section 526 was not intended by Congress to be a partial implied repeal of the Antitrust Laws

This Court has likened the antitrust laws to the Magna Carta of free enterprise; their importance to economic freedom has been compared to the importance of the Bill of Rights to personal freedom.[5]

It is the belief of Washington that any construction of Section 526 which would prohibit *all* parallel imports of liquor would further the anti-competitive ends of foreign corporations contrary to the intent of Congress in adopting the antitrust laws.

This Court in *California Liquor Dealers Assoc. v. Midcal Aluminum,* 445 U.S. 97 (1980), reaffirmed, in the context of liquor sales, the effectiveness of the antitrust laws in the absence of a Congressional expression of intent that they should be superseded. The legislative history of Section 526 discloses no intent that it be used for the furtherance of anticompetitive purposes.

In *Rice v. Norman Williams Company,* 458 U.S. 654 (1982) a state "primary source"[6] law was upheld against an antitrust challenge. As this Court first stated in *Parker v.*

[4]15 U.S.C.S. § § 1, 2.

[5]*United States v. TOPCO Associates, Inc.*, 405 U.S. 596 (1972).

[6]A "primary source" law is one which requires that a commodity be obtained only from the "primary" source, i.e., the manufacturer or its designee.

*Brown*, 317 U.S. 341 (1943), where a state has specifically displaced competition through its legislative process, Congress could not have intended that action to be subject to penalties under the antitrust laws. In *Rice*, there was such an intent to displace competition, by enactment of the "primary source" law, and the antitrust laws were held not applicable.

In the instant case, there is no national "primary source" law for liquor,[7] or for trademarked goods in general. However, the invalidation of 19 C.F.R. § 133.21(c) would, in effect, make Section 526 a national "primary source" law for foreign produced trademarked liquor. Section 526 would then give the domestic subsidiary of a foreign trademark owner an absolute right to the assistance of the U.S. Customs Service in excluding all parallel trademarked liquor. The foreign trademark owner and its affiliate would thus be able to maintain any resale price they choose in the United States. In antitrust language, this constitutes vertical price fixing.

While vertical restraints consisting solely of territorial market division may have both anti-competitive and pro-competitive aspects, and are thus judged under the rule of reason,[8] *vertical price fixing arrangements* are *per se* violations of the Sherman Act. *Monsanto Company v. Spray Right Service Corporation*, 465 U.S. 752 (1984).

Therefore, if Section 526 in effect grants to the domestic corporate affiliate of a foreign trademark holder the right to have the U.S. Customs Service exclude all trademarked goods, Section 526 would have to be considered a partial implied repeal of the Sherman Act.

The courts have been reluctant to find such partial implied repeals, and will do so only where there is a clear indication of congressional intent to displace the free market. *United States v. National Association of Securities*

[7]Quite to the contrary, recently the 99th Congress defeated a rider (Section 143) to the 1987 Appropriations Resolution (HJR-738) which would have prevented the parallel importation of wine and liquor. See 132 Cong. Rec. H11080-86 (~~Daily Ed.~~ October 15, 1986) in which the floor debate and vote to defeat the anti-parallel rider is described.

[8]*Continental T.V. Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, (1977).



*Dealers, Inc.*, 422 U.S. 694 (1975). The legislative history of Section 526, however, contains no indication of any such intent.

Rather, this legislative history shows that Congress was concerned with the type of fact situation involved in the decision of the Court of Appeals for the 2nd Circuit in *A. Bourjois and Company v. Katzel*, 275 F. 539 (2nd Cir. 1921), *reversed* 260 U.S. 689 (1923). This was a fact situation which the Congress perceived to be a case of fraud on an American trademark owner. This American company was unrelated to the foreign company from which it had purchased the trademark in good faith and for value.[9]

There was no consideration given by Congress to permitting internationally related corporations to raise prices artificially in the United States market through resale price maintenance arrangements.

It is simply not reasonable to conclude that Congress, by enacting Section 526, meant to create an exception to the antitrust laws for the benefit of foreign businesses, especially when the isolationist political climate and protectionist economic policies of the 1920's and 1930's are taken into account. It is even more unlikely that Congress intended to create such an exception at the expense of truly independent American companies, American consumers, and — because the suppression of parallel imports increases the prices of imported goods — to the detriment of the American balance of payments as a whole.

It is also important to bear in mind that if Section 526 *and* 19 C.F.R. § 133.21(c) had been in place when the original dispute in *Katzel* arose, the plaintiff therein would have been entitled to an exclusion order prohibiting the parallel importation of the trademarked face powder. Such an order would have been available because the American trademark owner and the foreign producer in *Katzel* were *not* "related-parties" so as to come within the exception of 19 C.F.R. § 133.21(c).

[9]This legislative history was discussed by the court below and also in the opinions in *Vivitar Corp. v. U.S.*, 761 F. 2d 1552 (Fed.Cir.1985), cert. denied, 106 S. Ct. 791 (1986) and in *Olympus Corp. v. U.S.*, 792 F. 2d 315 (2nd Cir.1986), aff'g 627 F. Supp. 911 (E.D.N.Y. 1985).

The speed with which Congress acted to overturn the 2nd Circuit in *Katzel,* coupled with the 50 year history of Congressional acquiescence in the Customs Services' administration of Section 526 through the "related-party exception," is a strong indication that the Customs Service has acted within the scope of Congressional intent in adopting 19 C.F.R. § 133.21(c).

Amicus would submit that it is not merely coincidence that 19 C.F.R. § 133.21(c) acts in such a way as to give the American market an alternative to international price discrimination and vertical price fixing between foreign corporations and their domestic marketing subsidiaries. Such an alternative is necessary if Congressional antitrust policy is to be effectively implemented.

## The "Related Party Exception" regulation correctly implements the intent of Congress in enacting Section 526

The Customs Service regulation at issue, 19 C.F.R. § 133.21(c), is commonly referred to as the "related party exception" to Section 526.

This regulation implements longstanding Customs Service policy in the administration of Section 526.[10] Specifically, 19 C.F.R. § 133.21(c) permits parallel importation of trademarked goods in cases where the United States trademark holder is the same entity as, or is controlled by,

[10]19 C.F.R. § 133.21(c) is the present incarnation of the "related-party exception" to Section 526. Prior to the formal adoption of 19 C.F.R. § 133.21(c), the U.S. Customs Service administered Section 526 for over 50 years by consistently refusing to bar parallel imports where doing so would have given the American subsidiary of a foreign manufacturer a monopoly over distribution of its product in the United States market.

In *United States v. Guerlain, Inc.,* 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded,* 358 U.S. 915 (1958), *action dismissed,* 172 F. Supp. 107 (S.D.N.Y. 1959), an attempt to monopolize a market through the use of Section 526 to exclude parallel imports was held to violate the Sherman Act. Although the value as a precedent of the *Guerlain* case itself is questionable from both a procedural and a substantive viewpoint, the U.S. Customs Service has consistently followed an interpretation of Section 526 which is in accord with the *Guerlain* court's antitrust reasoning and Congress has done nothing to disapprove or reverse that interpretation.



the foreign producer[11] who originally applied the trademark in a foreign country. This is in accord with the intent of Congress as demonstrated by legislative history surrounding the enactment of Section 526.

At its roots, parallel trade has an *economic* cause, as opposed to a *legal* one. That is, parallel trade simply will not occur unless the relationship between the prices charged for an article in two different countries is sufficiently out of line to enable purchase on the free market in the first country and subsequent sale at a profit (but also at a lower price than offered by "authorized" sources) on the free market in the second country. Price disparity of this magnitude does not occur naturally, but is intentionally engineered by producers and their "authorized" distributors to maximize total profit for the related family of businesses.

The interest of Washington in parallel importation arose from the existence of just such a disparity between the prices of many brands of foreign liquor on the world market and the much higher prices charged for the same brands in the United States. This is the result of many foreign liquor producers awarding exclusive "authorized" status to their own marketing subsidiary companies in the United States, while refusing to sell directly to any other United States purchaser. Because this eliminates all intrabrand competition in their products, the foreign producers are able to extract an artificially high price from the American market.

While the option of parallel importation of these products has always been available under 19 C.F.R. § 133.21(c), it is only recently that Washington (later joined by Pennsylvania and Maine)[12] became aware of, and began to exercise, the parallel importation alternative.

[11]Or where a foreign entity has applied the trademark to the goods with the permission of the United States trademark holder.

[12]It has been estimated that Pennsylvania may be able to save $20 million per year for its citizens through parallel market purchases. See 132 Cong. Rec. H11083 (Daily Ed. October 15, 1986) reporting the remarks of Representative Gaydos of Pennsylvania during debate on an appropriations rider (later defeated) which would have stopped parallel

Washington believes the use of the parallel purchasing option is the only way in which the interests of the consumer can be protected against monopoly driven, artificially inflated prices for foreign liquor, and for other products as well.

## CONCLUSION

For the reasons discussed above, this Court should reverse the court below and hold that the U.S. Customs Service was acting within the intent of Congress as to both trade and antitrust policy in its construction of Section 526 through the "related-party exception" presently embodied in 19 C.F.R. § 133.21(c).

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February 20, 1987

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importation of liquor. Maine, a much smaller market than either Pennsylvania or Washington, has purchased an initial order, but definite savings figures have not been developed yet.

# AMICUS CURIAE

# BRIEF

(13) (13) (12)

Nos. 86-495, 86-624 & 86-625



IN THE
# Supreme Court of the United States
OCTOBER TERM, 1986

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COALITION TO PRESERVE THE INTEGRITY
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CHARLES OF THE RITZ GROUP, LTD.,
*Respondents*.

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**On Writ of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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**BRIEF AMICUS CURIAE OF NATIONAL MASS RETAILING INSTITUTE IN SUPPORT OF PETITIONERS**

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32 / 1

## TABLE OF CONTENTS

## TABLE OF AUTHORITIES





## TABLE OF AUTHORITIES—Continued

TABLE OF AUTHORITIES—Continued



IN THE

**Supreme Court of the United States**

OCTOBER TERM, 1986

---

Nos. 86-495, 86-624 & 86-625

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K MART CORPORATION and
47TH STREET PHOTO, INC.,
*Petitioners,*
v.

COALITION TO PRESERVE THE INTEGRITY
OF AMERICAN TRADEMARKS,
CARTIER, INC. and
CHARLES OF THE RITZ GROUP, LTD.,
*Respondents.*

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**On Writ of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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**BRIEF AMICUS CURIAE OF NATIONAL MASS RETAILING INSTITUTE IN SUPPORT OF PETITIONERS**

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## INTEREST OF AMICUS CURIAE [1]

The National Mass Retailing Institute ("NMRI") is a non-profit trade association of discount retailers. NMRI's 125 members operate in every state of the union, maintaining over 20,000 stores, and account for over

[1] Pursuant to Supreme Court Rule 36.2, all parties to this case—the Coalition to Preserve the Integrity of American Trademarks ("COPIAT"), the United States, K mart Corporation, and 47th Street Photo, Inc.—have granted written consents to this filing. Those consents have been filed with the Clerk of the Court.

$100 billion in annual domestic sales. NMRI members range in size from one-store businesses in rural communities to multi-billion dollar chains operating thousands of stores throughout the nation.

Although of diverse sizes, NMRI members share a common marketing approach: discount retailers offer consumers a wide variety of quality products at competitive, discount prices. NMRI members believe that consumers benefit from vigorous retail competition—be it competition among stores selling different products (inter-brand competition) or competition among stores selling the same product (intra-brand competition). In either case, consumers enjoy the lower prices which result from competition. At the same time, NMRI members know that consumers often desire certain services, such as promotional information, point-of-sale instructions, warranty protection, repair capability, or product return policies. NMRI members provide those services. In short, NMRI members strive to offer consumers the desired blend of low prices and needed services. If statistics are any measure, consumers have embraced the discount industry's marketing approach: discount retailers' sales volume has been estimated to have grown over 3400% in the last 25 years.[2]

NMRI members' success is, of course, dependent upon members' ability to obtain adequate supplies of products desired by consumers. Nearly all products sold by NMRI members are obtained directly from manufacturers or their authorized representatives. NMRI members are valued customers of many brand-name manufacturers of quality merchandise, including some products sold by the respondents.

Some products, however, cannot be obtained directly from those channels. When direct buying is not available, NMRI members may turn to the "parallel" or "grey" market to purchase genuine, brand-name products. For a variety of reasons, including oversupply, those products are available for purchase in foreign markets. After purchasing parallel imports, retailers then sell those products to domestic consumers in the same manner as they sell goods purchased through direct channels—at competitive prices and with appropriate services. The availability of parallel imports in additional retail outlets gives consumers a choice—a choice not only of competing brands within any store, but a choice of competing stores carrying a particular brand.

[2] *True Look of the Discount Industry*, 26 The Discount Merchandiser 37, 43 (1986).



For years, this distribution channel has been permitted by public law, although subject to private contractual restraints. However, the opinion issued below by the United States Court of Appeals for the District of Columbia Circuit threatens this distribution system. The opinion, if upheld, will, as a matter of public law, deny NMRI members and their customers the opportunity to buy parallel imports.

Because the decision below adversely affects NMRI members and their customers, NMRI respectfully submits this brief amicus curiae, in support of petitioners, urging that the decision below be reversed. After over 50 years of lawful entry into the United States under the watchful and approving eyes of Congress and the Customs Service, parallel imports should not now be blocked by judicial fiat.

## SUMMARY OF ARGUMENT

This case involves the appropriate use of tools of statutory construction. The statute to be construed, § 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, either (1) prohibits the importation, without the United States trademark holder's consent, of *all* foreign-manufactured goods bearing a United States trademark or (2) permits the

entry of *some* of those goods in instances where the United States trademark holder and the foreign trademark holder are related to each other.

The United States Customs Service, by regulation, has historically favored the latter interpretation; the court below opted for the former. To decide which is the correct construction of § 526, this Court has at its disposal several tools of statutory construction. By proper use of these tools, this Court should conclude that the statute permits entry of foreign-manufactured trademarked goods into the United States when the owner of the United States trademark is related to the owner of the foreign trademark. The lower court's contrary—and erroneous—conclusion is attributable to its insufficient use of all of the available tools of statutory construction.

The starting point of statutory construction is, of course, the statute itself. Section 526, read without benefit of any other materials, might appear to favor the construction urged by respondents: a ban on parallel imports. But the statutory language is only a starting point. The Court is free to—indeed, must—assess all the extrinsic evidence as well, particularly where that evidence points to a legislative intent at odds with the statute's literal language. In this case, there is ample extrinsic evidence of the meaning of § 526, evidence which supports the Customs Service's interpretation.

Perhaps the most important extrinsic evidence is the impetus for the legislation. As stated by Justice Cardozo, a statute comes "freighted with the meaning imparted to [it] by the mischief to be remedied . . . ." *Duparquet Co. v. Evans*, 297 U.S. 216, 221 (1936). Understanding the "mischief" prompting passage of § 526 aids this Court's task.

Congress enacted § 526 in 1922 on the heels of an appellate court decision, *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923). *Katzel* held that an American purchaser of a trademark could not, under then-existing statutes, block the importation of goods manufactured and purchased abroad which bore the same trademark. Two features of the *Katzel* opinion were critical: (1) neither the competing importer nor the holder of the foreign trademark was related to the American company and (2) the American company had not only purchased the exclusive right to the trademark, but had also developed an independent goodwill in the United States. Congress reacted to the *Katzel* opinion by rejecting its holding. Congress, however, did not try to legislate beyond the mischief of *Katzel*. Remarks of the legislation's proponents evidence an intent to overrule only *Katzel* and, otherwise, to leave intact the rule of law allowing the importation of foreign-manufactured trademarked goods where the U.S. trademark holder and the foreign trademark holder were related.



Agency interpretation is yet another tool of statutory construction. For 50 years, the United States Customs Service has historically construed § 526 as not applicable in "related persons" cases. That is, the expert agency entrusted with enforcing the Act has followed the "mischief" rationale. That consistent and long-standing interpretation of the statute merits this Court's deference. *Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984).

Another tool of statutory construction is subsequent Congressional review and treatment of the enforcing agency's regulations. The Customs Service's interpretation of § 526 has been before Congress many times in the last 60 years. Congress not only has not revoked this interpretation, it has affirmatively endorsed it. Such Congressional treatment is not only important evidence of a statute's meaning, it also serves as a legislative ratification of the interpretation. *Seatrain Shipbuilding Corp. v. Shell Oil Co.*, 444 U.S. 572 (1980).

It is not, of course, this Court's function to decide the policy question of whether parallel imports are or are not in the public interest. Respondents have, nonetheless, proffered arguments in support of their contention that the sale of parallel imports is both injurious to consumer welfare and unfair to competition. Ample evidence exists, however, that the continued entry of parallel imports is in the consuming public's best interest. Parallel imports keep prices lower than they would otherwise be. Extensive state and federal regulations also insure that consumers of parallel imports will be protected from any unscrupulous trade practices—the same protections afforded to consumers of any consumer product. As to claims of unfair competition, trademark holders have ample private means available to obtain desired ends. Foremost among these private remedies are contract provisions calling for restricted distribution. A trademark holder may, by contract, ordinarily obtain the same goal sought in this litigation: a ban on transshipment by the trademark holder's distributors. If such a result is to be obtained, the free market ought to provide it—not public law.

Because the lower court did not properly employ the available tools of statutory construction, that court's opinion should be reversed. As has long been the law, foreign-manufactured trademarked goods ought freely to enter this country when the United States trademark holder and the foreign trademark holder are related.



## ARGUMENT

### I. SECTION 526 OF THE TARIFF ACT AUTHORIZES THE PARALLEL IMPORTATION OF TRADEMARKED GOODS WHERE THE DOMESTIC AND FOREIGN TRADEMARK HOLDERS ARE RELATED

The cornerstone of the lower court's decision is its strict construction of the language of the statute in question, § 526 of the Tariff Act of 1930, 19 U.S.C. § 1526 (Pet. No. 86-625 at 10a-11a, 22a). The literal language, it is held, does not "admit of any exception" for related parties (*id.* at 10a). Hence, the court concluded that all parallel imports must be barred.

The court's strict construction has produced a result which is at odds with the enacting Congress' intent, at odds with 50 years of regulatory interpretation, at odds with subsequent Congressional endorsement, and at odds with decades of commercial reliance. It is an erroneous decision, resulting from the court's failure to employ properly all the tools of statutory construction.

The principal case relied upon by the lower court to support its strict construction—*Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984) (Pet. No. 86-625 at 10a)—does not prohibit a reviewing court from looking beyond the literal language of the statute. To the contrary, *Chevron* invites a court to "employ[] traditional tools of statutory construction" to ascertain Congress' intent. 467 U.S. at 843 n.9. Those traditional tools are hardly limited to the "plain meaning" rule (Pet. No. 86-625 at 11a); that rule is only one of "the most basic general principles of statutory construction [which] must yield to clear contrary evidence of legislative intent." *National R.R. Passenger Corp. v. National Ass'n of R.R. Passengers*, 414 U.S. 453, 458 (1974). A more complete set of tools of statutory construction used to establish Congress' intent includes: the "mischief" to be remedied, the views of the enacting leg-

islators, contemporaneous judicial interpretation, historical agency interpretation, and subsequent Congressional treatment. This court has traditionally supported—indeed mandated—consideration of these other factors to determine and to effectuate Congressional intent. *See Church of the Holy Trinity v. United States*, 143 U.S. 457, 459 (1892); *see also United States v. Ryan*, 284 U.S. 167, 175 (1931) ("A literal application of a statute which would lead to absurd consequences is to be avoided whenever a reasonable application can be given which is consistent with the legislative purpose.").

While the lower court did recite some of these extrinsic measures of legislative intent, it did not give them sufficient deference. The court seems to have reached its conclusion relying almost exclusively on the 100-odd words of § 526, treating the extrinsic evidence as a tedious chore to be completed and not a rich vein of information to be mined. The court, it may be said, appears to have approached its task with a skeptic's view of the extrinsic evidence.

That approach is deficient and its result should be reversed. The extrinsic evidence compels the conclusion that the enacting Congress—and subsequent Congresses—left open the door to parallel imports where the foreign and the United States trademark holders are related companies. This conclusion is compelled on understanding what "mischief" prompted passage of the statute, how the statute has traditionally been construed, and how subsequent Congresses have treated the issue. All these signs point to the same construction: § 526 is meant to prohibit parallel imports only where the foreign and domestic trademark holders are unaffiliated, independent persons.

### A. Congress Enacted Section 526 Of The Tariff Act In Response To The *Katzel* Opinion: *Katzel* Was The "Mischief To Be Remedied."

All parties to this case, and the court below, agree that, in 1922, Congress enacted § 526 of the Tariff Act (Tariff



Act of 1922, Ch. 356, § 526, 42 Stat. 975 (current version at 19 U.S.C. § 1526 (1980)) in response to the opinion of the United States Court of Appeals for the Second Circuit in *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923).[3] As Judge Learned Hand noted, nearly contemporaneously with the enactment of § 526, it "was intended only to supply the casus omissus, supposed to exist in Section 27 of the Act of 1905 . . . because of the decision of the Circuit Court of Appeals in *A. Bourjois & Co. v. Katzel*. . . ." *Coty, Inc. v. Le Blume Import Co.*, 292 F. 264, 269 (S.D.N.Y.), *aff'd*, 293 F. 344 (2d Cir. 1923).

It follows that interpretation of § 526 must be made in the context of the *Katzel* opinion. The *Katzel* opinion was, in short, the "mischief" to be remedied by the statute: "words or phrases in a statute come 'freighted with the meaning imparted to them by the mischief to be remedied and by contemporaneous discussion. In such conditions history is a teacher that is not to be ignored.' " *St. Paul Fire & Marine Ins. Co. v. Barry*, 438 U.S. 531, 545-546 (1978), *citing Duparquet Co. v. Evans*, 297 U.S. 216, 221 (1936) (Cardozo, J.).

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[3] Brief for Respondent in Response to Petitions Nos. 86-495, 86-624, and 86-625 for a Writ of Certiorari ("COPIAT Br.") at 10; Petition No. 86-624 for Writ of Certiorari by 47th Street Photo ("Pet. No. 86-624") at 5; Petition No. 86-495 for Writ of Certiorari by K mart ("Pet. No. 86-495") at 13; Petition No. 86-625 for Writ of Certiorari by United States ("Pet. No. 86-625") at 4 n.2; *COPIAT v. United States*, 790 F.2d 903, 909 (D.C. Cir. 1986) (Pet. No. 86-625 at 12a) (*Katzel* was "a major stimulus for the enactment of Section 526. . . ."). *See also Olympus Corp. v. United States*, 792 F.2d 315, 319 (2d Cir. 1986), *petition for cert. filed*, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757 (". . . Section 526 was adopted primarily to overturn . . . *Katzel*. . . ."). *But see Vivitar Corp. v. United States*, 761 F.2d 1552, 1561 (Fed. Cir. 1985), *cert. denied*, 106 S.Ct. 791 (1986) (" . . . reversal of the *Katzel* decision was one purpose of § 1526, [but] it was clearly . . . not the *sole* purpose.").

What was the mischief of *Katzel*? The Second Circuit had permitted the parallel importation of a product bearing a trademark where the foreign trademark holder and the United States trademark holder were separate, unaffiliated entities. Bourjois, the U.S. company, acquired from a French partnership, Wertheimer, the French company's cosmetic business in the United States—including the U.S. trademark and the exclusive right in the United States to repackage and sell "Poudre Java." Bourjois spent considerable time and money to build up the business in the United States and the public eventually viewed Bourjois as the source of the product. 260 U.S. at 691.[4]

A third person, Katzel, bought the product abroad and imported it into the United States in its original French packaging, marked "Poudre de Riz de Java." The Second Circuit ruled that, despite Bourjois' purchase of the U.S. trademark and its lack of control over Wertheimer's activities, the powder could enter the U.S. without violating existing trademark laws. 275 F. at 543.[5]

[4] Justice Holmes subsequently emphasized that the public regard of the American company, Bourjois, as the source of the powder was the basis for the Supreme Court reversal of the Second Circuit opinion. *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924). In contrast, contemporary parallel imports are often characterized by a public regard for the foreign manufacturer as the product source.

[5] At the time, Section 27 of the Trademark Act of 1905, Pub. L. No. 58-84, § 27, 33 Stat. 724 (1905) (as amended 15 U.S.C. § 1124 (1982)) provided that "no article of imported merchandise which shall copy or simulate . . . a trademark registered . . . shall be admitted to entry . . . ." The Second Circuit, construing that Act, concluded that Katzel's packaging bearing the "Java" trademark did not "copy or simulate" Bourjois' packaging bearing the same trademark where both packages contained identical powder. 275 F. at 543. That holding was consistent with the historical view, prior to enactment of § 27, that a purchaser of the exclusive American rights to a trademark of foreign-manufactured products could not enjoin the importation of identical, genuine goods purchased abroad. *Apollinaris Co. v. Scherer*, 27 F. 18 (C.C.S.D.N.Y. 1886).



Congress reacted. It viewed Wertheimer's conduct as tantamount to a "fraud." 62 Cong. Rec. 11,603 (1922). That is, the two principal sponsors of the bill—Senators McCumber and Sutherland—stressed the fact that Wertheimer, having sold the U.S. trademark to Bourjois, nonetheless allowed products bearing that mark to be shipped to the United States.[6] The Act was intended to

[6] Senator McCumber noted:

> ". . . the courts have held that we cannot prevent any product being shipped into the United States if it is in violation of a trade-mark where the foreign maker has sold trade-mark and all, patent and everything in the United States.

62 Cong. Rec. 11,604 (1922).

Senator Sutherland stated:

> [A]ll that this paragraph does is to prevent fraud, and I believe that the Senate is in favor of protecting the property rights of American citizens who have purchased trade-marks from foreigners, and when these foreigners deliberately violate the property rights of those to whom they have sold these trade-marks by shipping over to this country goods under those identical trade-marks.

*Id.* at 11,603. *See also id.* at 11,604 (Senator McCumber discussing sale of "Bayer's Aspirin" trademark).

The court below characterized these comments as "best understood as efforts by proponents of a bill to understate its significance by focusing on its most notorious targets" (Pet. No. 86-625 at 17a). The court is mistaken: those proponents were defining, not understating, the bill's coverage. They were responding to *Katzel*.

To be sure, certain proponents of the bill seemed confused on whether Wertheimer—the seller of the trademark—or Wertheimer's foreign customer, Katzel, had introduced the product into the United States (Pet. No. 86-625 at 16a). That distinction was then, and is now, largely irrelevant: it is the relationship between the U.S. trademark holder and the foreign trademark holder which is critical to construing § 526. Congress in 1922 concluded that, where such persons are independent, the U.S. holder can block entry. But when they are related, the goods may enter. The fact that the parties are related is tantamount to a consensual entry.

prevent such "fraud" by denying importation where the foreign trademark owner had sold the U.S. trademark rights to an unrelated party.

Senator McCumber specifically denied the statute's applicability to imports where there had been no sale of the trademark rights: "[I]f there has been no transfer of trademark, that presents an entirely different question . . . . The mere fact of a foreigner having a trade-mark and registering that trade-mark in the United States, and selling the goods in the United States through an agency, of course, would not be affected by the provision" (*id.* at 11,605).[7]

In short, Congress enacted § 526 to remedy the mischief of *Katzel*: the "fraud" upon an independent, unaffiliated American purchaser of a trademark who, having convinced the public that the product in question was uniquely its own, nonetheless faced competition from an imported product bearing the same mark. The statute was *not* intended to address—and therefore should not be construed to address—the parallel importation of products where the U.S. trademark holder is related to the foreign trademark holder and where, as a result, competition between the two products in question is ultimately in the control of the common enterprise.

This construction of § 526, one which draws on the mischief prompting the legislation and on enacting legislators' comments in 1922, makes sense today.[8] This construction has always made sense, and it is the same interpretation long drawn by the expert agency entrusted with enforcing the statute.

[7] Senator McCumber's statement came in response to an inquiry from Senator Lenroot, seeking to know whether an international corporation could designate an American agent to register its trademark in the United States and then use that registration to bar unauthorized imports. 62 Cong. Rec. at 11,605.

[8] A construction of § 526 emphasizing the mischief of *Katzel* is hardly novel. Indeed, it is the focus of many legal scholars over the past 50 years. *E.g.*, Note, *Trade-Mark Infringement: The Power of an American Trade-Mark Owner to Prevent the Importation of the Authentic Product Manufactured by a Foreign Company*, 64 Yale L.J. 557, 566 and nn.48-51 (1955); Note, *Affiliated Trademark Owner Cannot Prevent Importation of Genuine Goods Bearing the Mark*, 71 Harv. L. Rev. 564, 565 (1958).



**B. Current And Historical Customs Regulations Have Properly Reflected Congressional Intent**

Mindful of Congress' intent in 1922, the Customs Service has, over the past half-century, construed and enforced § 526 to remedy only the mischief of *Katzel* and, otherwise, to relegate control of parallel imports to private law. A 1936 regulation provided that a domestic trademark holder could protest the entry of products bearing that trademark but could not do so when the foreign and United States trademarks were "owned by the same person, partnership, association, or corporation." T.D. 48,537, 70 Treas. Dec. Int. Rev. 336 (1936).[9]

In 1953, the regulation was clarified to provide that the common ownership limitation of § 526 also embraced "related companies." T.D. 53,399, 88 Treas. Dec. Int. Rev. 384 (1953). While Customs temporarily deleted that regulation in 1959, the court below conceded that Customs, over the next decade, "continued to regard related companies as outside the scope of Section 526's protection" (Pet. No. 85-625 at 26a). Finally, in 1972, Customs, following full public scrutiny and ample oppor-

[9] The court below, in a strained passage, attempted to minimize the import of the 1936 regulations by suggesting that they were not based on § 526 of the Tariff Act, but only on § 27 of the Trademark Act. The analysis is unpersuasive. The court conceded that Customs, in 1943, specifically stated that the "related parties" regulation, Article 518, implemented § 526 (Pet. No. 86-625 at 23a and n.14). Further, the court acknowledged that Article 518, prior to 1936, also dealt with § 526 (*id.* at 23a). It is difficult to accept the court's logic that Article 518 did not, in 1936, interpret § 526 when the same Article interpreted § 526 both before and after 1936.

tunity to comment, promulgated the regulations now under attack by COPIAT and other respondents. 19 C.F.R. § 133.21 (1986).

In short, Customs, for over 50 years, has authorized parallel imports where U.S. and foreign trademarks are held by related persons. This 50-year period of administrative construction is significant: Customs' consistent and long-standing evaluation of § 526 merits substantial deference by this Court in construing the statute. *E.g.*, *Chevron*, *supra*, 467 U.S. at 844-845. This Court need not find that the Customs construction is the only reasonable one, or even the one which this Court would adopt if it were to write on a fresh slate; it is enough to conclude that Customs has acted reasonably in construing the intent of the Act. *Id.* at 843 n.11; *Zenith Radio Corp. v. United States*, 437 U.S. 443, 450 (1978). Such a conclusion is not too difficult: Customs' regulations reasonably construe the 1922 statute because they remedy the very "mischief" prompting the legislation—the unfairness to an independent U.S. trademark holder facing competition from trademarked products emanating from an unrelated foreign source.

The court below disagreed with this reasoning, finding that Customs, the expert agency entrusted by Congress to interpret the statute, did not act "reasonably" (Pet. No. 86-625 at 29a), or "carefully" (*id.* at 28a-29a) in that its reasoning was "poorly articulated and vacillating" (*id.* at 28a). The lower court opinion could be criticized if only for positing far too harsh a standard for judging the agency—a standard which would appear to require an agency to write with near literary precision. But, the appropriateness of that standard aside, Customs' historical reasoning has in fact been both adequately articulated and remarkably consistent for half a century.

Customs' historical reasoning, when distilled, is simply that the government ought not to police the restricted



distribution system of international companies which have both U.S. and foreign components. Customs has believed, appropriately, that Congress has never asked the federal government to fill that role. In explaining that rationale, Customs has drawn from many sources—including prevailing antitrust policies, international trade policies, and—most important—Congressional intent. While, over time, antitrust theories may have changed on the legality of *private* efforts to control distribution, Customs' adherence to its own long-standing views of Congressional intent is hardly "vacillating." Customs' regulations reflect, instead, the constant public policy wisdom of keeping government out of the business of enforcing restricted distribution schemes. In short, Congress directed Customs only to block entry of goods when it was beyond the ability of the U.S. trademark holder to do so—when that entity was not related to the foreign holder. And Customs has honored that directive by refusing to intercede when parallel imports are traced to related parties.

The lower court's attempt to minimize the agency's expertise is perhaps, in the end, judicial discomfort with the substantive rule at issue—the law's tolerance of a parallel import market. If that long-standing rule is misguided, it is up to Congress to change it. *E.g.*, *Flood v. Kuhn*, 407 U.S. 258, 284 (1972). And, as we shall see, Congress, despite ample opportunities, has not done so.

### C. Congress Has Consistently Ratified The Customs Regulations

On many occasions in the past 60 years, Congress has reviewed the issue of parallel imports. Not only has Congress desisted from changing Customs regulations, it has affirmatively endorsed them. Subsequent Congresses have affirmed that the 1922 legislation had one intent: to remedy the mischief of *Katzel*.

Examples of subsequent Congressional ratification abound. Perhaps most clear is the 1977 statement in a House Report:

> [Section 526] has been consistently interpreted by the United States Customs Service for the past 20 years as excluding from protection foreign-produced merchandise bearing a genuine trademark created, owned and registered by a citizen of the United States if the foreign producer has been authorized by the American trademark owners to produce and sell abroad goods bearing the recorded trademark.

H.R. Rep. No. 621, 95th Cong., 1st Sess. 27 (1977) (Pet. No. 86-625 at 8a). While the court below recited this Report language, it also quickly dismissed it as insignificant by, first, noting the absence of any comparable statement in either the Senate or Conference Reports and, second, characterizing the Report as somehow too "casual" (Pet. No. 86-625 at 28a and 30a). That treatment of the views of one chamber of Congress is improper.

Indeed, in comparable circumstances, this Court has acknowledged the "significant weight" of such legislative materials. For example, in *Seatrain Shipbuilding Corp. v. Shell Oil Co.*, 444 U.S. 572 (1980), the Court construed a 1936 statute, § 506 of the Merchant Marine Act (46 U.S.C. § 1156), which, by its express terms, did not explicitly allow the action taken by the Secretary of Commerce. The Court, having found the early legislative history "ambiguous, even puzzling" (*id.* at 590), turned to two factors for assistance: (1) consistent agency interpretation of the section which permitted the conduct challenged and (2) subsequent Congressional review and approval of the conduct (*id.* at 595-596).

Concerning the first factor—consistent agency interpretation—the Court noted that "while the agency's rationale has not always been persuasive, it has not wavered from its general understanding of its powers and



the extent to which their exercise is consistent with the goals of the Act." Concerning the second factor—subsequent Congressional review—the Court relied upon a single House Committee Report issued 35 years after the initial legislation and concluded (*id.* at 596) (citations omitted):

> The understanding of the 92d Congress seems clear. And while the views of subsequent Congresses cannot override the unmistakable intent of the enacting one . . . such views are entitled to great weight . . . and particularly so where the precise intent of the enacting Congress is obscure.

This Court, then, in *Seatrain* endorsed what the court below refused to do: in construing a statute, a court may go beyond the express terms of the statute and rely upon consistent agency interpretation and subsequent Congressional history—including history found in a single House Report. The 1977 House Report construing § 526 is entitled to the same "significant" weight—and not "casual" regard—as the Report relied upon in *Seatrain*.

In any event, the 1977 House Report does not stand alone as evidence of a subsequent Congress' ratification of Customs' regulations. More recently, in 1984, Congress enacted the Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, Title II, Ch. XV, §§ 1501-1503, 98 Stat. 2178 (codified at 15 U.S.C. §§ 1115-1118 (Supp. 1986)). In its Report on that bill, the Senate Judiciary Committee noted that the statute was not intended to curtail parallel imports:

> [The bill] does not include within its coverage so-called "gray market" goods—*i.e.*, authentic trademarked goods that have been obtained from overseas markets. The importation of such goods is legal under certain circumstances. For example, the Treasury Department has long interpreted Section 526 of the Tariff Act of 1930, 19 U.S.C. 1526, to permit the importa-

tion of such goods when foreign and domestic users of the trademark are affiliated through common ownership and control. *See* 19 C.F.R. 133.21(c).

S. Rep. No. 526, 98th Cong., 2d Sess. 3 (1984).

In sum, Congress, in legislating in this field over the last half of a century, has never directed that the "related person" interpretation of § 526 be changed. It is safe to conclude, then, that Congress has not only acquiesced in the regulatory interpretation; it has also recognized that the interpretation was precisely what it intended in 1922. *See Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Curran*, 456 U.S. 353, 379-382 (1982).[10]

## II. CUSTOMS' REGULATIONS ARE BASED UPON AMPLE PUBLIC POLICY CONSIDERATIONS

In their first brief in this Court, respondents make a frontal policy attack on the existence of the grey market (COPIAT Br. at 2-4). Respondents contend that "... sellers of grey-market goods have a free ride on the trademark owners' expenditures . . ." and that such sellers, notably "discount outlets, . . . offer less service" (*id.* at 3). While respondents claim not to seek this court's resolution of these public policy arguments (*id.* at 4), they invite the Court to view these contentions as "background *facts*" (*id.*) (emphasis added). And these same arguments apparently formed the basis for respondents' unsuccessful request for equitable relief before the district court (Pet. No. 86-625 at 43a-44a).

In short, respondents, in this Court and in the courts below, have invited a debate on the merits of the parallel

[10] Recently, Judge Harold Greene of the United States District Court for the District of Columbia found that there has been "congressional acquiesence in the Customs Service's interpretation of Section 526 . . . ." *Lever Bros. Co. v. United States*, No. 86-3151, slip op. at 6 (D.D.C. January 21, 1987) (denying preliminary injunction sought against Customs Service).



import issue. However, Congress has already resolved that issue in favor of the continued importation of parallel imports where the foreign and domestic trademark holders are related. Even if this Court were authorized to establish an appropriate policy, a wealth of reasons supports the present Customs Service regulations: (a) the availability of parallel imports benefits the consumer; (b) Customs' policy is consistent with the practices of our foreign trading partners; and (c) extensive federal and state laws adequately regulate competition and protect the consumer.

### A. Parallel Imports Benefit The Consumer

Parallel imports are first-quality, genuine goods, manufactured abroad and legally imported into the U.S. for sale through competitive channels. As acknowledged by respondents, parallel imports may include, for examples: cameras, binoculars, watches, perfumes and cosmetics, and electronic goods (COPIAT Br. at 3). Absent parallel importation, these products would be imported only through restricted distribution networks controlled by the foreign manufacturer; consumer prices on these goods would likely be higher. With parallel imports, however, there is price competition for these goods—competition which enables American consumers to obtain the lower prices offered in foreign markets.[11]

As it happens, the particular product markets where parallel imports are prevalent tend to be highly concentrated, often characterized by declining market shares of United States-based producers and distinct market power for differentiated brand name products. Such characteristics define markets which benefit from vigorous intra-brand price competition. *See generally* C. Hills, *Antitrust Advisor* § 2.07 (2d ed. 1985).

[11] Parallel imports are often sold to U.S. consumers at discounts of 25% to 40%. 132 Cong. Rec. S8741 (daily ed. June 26, 1986) (comments of Senator Chafee on introducing S. 2614).

For example, in the photographic equipment and supplies market, "the 8 largest [companies] account for 85% of the total value of [domestic] industry shipments. . . ." Department of Commerce, *1986 U.S. Industry Outlook* at 35-1 (1986). That is a concentrated market, with insufficient numbers of producers to produce vigorous increased inter-brand price competition. Accordingly, intra-brand competition is needed to reduce prices. Further, "[i]mports supply virtually all of the 35mm cameras for the U.S. market" (*id.* at 35-2). Thus, were § 526 construed to enforce exclusive distribution channels, foreign camera manufacturers would obtain, as a matter of law, the anticompetitive benefits of reduced competition—entitlements not enjoyed by domestic manufacturers. Domestic manufacturers which seek restricted distribution must obtain it by private means; their distribution channels are honed by the market and not determined by public law.

Similarly, in the consumer electronics industry—another parallel import market identified by respondents—imports are extremely important. The Commerce Department noted (*id.* at 45-9) that foreign-manufactured color televisions account for approximately 50% of U.S. sales and that foreign-manufactured radios account for approximately two-thirds of the U.S. market. Overall in the consumer electronics field, imports represent 63% of 1985 consumption (*id.*). If the door allowing entry of parallel imports is closed, many of these foreign-manufactured goods will enter the United States only through restricted distribution channels, removed from intra-brand competition.

These observations on the consumer benefits of parallel imports are not exclusively the views of the discount retail industry.[12] Recently, the Bureaus of Competition,

[12] NMRI members are well qualified to comment on affected parallel import product markets. Discount stores and catalog show-



Consumer Protection and Economics of the Federal Trade Commission filed extensive comments with the United States Customs Service in response to a Customs Service inquiry on parallel imports.[13] Those comments stated, in part: "[a]ny effort by the Customs Service to make gray marketing more difficult in the future might therefore harm consumers of goods whose prices are now constrained by the threat of gray market imports" (*id.* at 15). In short, the sale of parallel imports in the United States benefits consumers by providing competition and resultant lower prices.

### B. Customs' Regulations Are Consistent With Foreign Trading Partners' Policies

The Customs regulations are not, as respondents suggest (COPIAT Br. at 6), based on "vacillating and uncertain" reasoning; the regulations in fact reflect a constant and certain rule of international trade. As Senator Chafee has recently observed:[14]

rooms, together, account for over 19% of the dollar volume of consumer electronics, over 26% of jewelry and watches, and 30% of the camera and photo supplies sold in the United States. *True Look of the Discount Industry, supra* note 2, at 92, 94, and 102.

[13] *Comments of the Bureaus of Competition, Consumer Protection and Economics of the Federal Trade Commission*, October 17, 1986 (*"FTC Comments"*), submitted in response to 51 Fed. Reg. 22005 (1986). The filing noted that the comments "do not necessarily represent the views of the Commission or of any individual Commissioner. The Commission, however, has authorized submission of these comments."

[14] 132 Cong. Rec. S8742 (daily ed. June 26, 1986). *See generally* Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 Wash. L. Rev. 433, 452-453 (1982) ("In general, if the trademark rights are held by one person or if the domestic and foreign owners are related, the exercise of domestic trademark rights to block parallel importation is apt to be denied. On the other hand, if the domestic and foreign trademark owners have no relation and both trademarks are acquired independently, a domestic trademark owner is more likely to succeed in blocking parallel importation.").

Parallel markets are legal in Japan, France, Germany, and in every other country which is a major American trading partner. It would be entirely inappropriate for the U.S. Government to provide protection to foreign manufacturers whose own governments do not provide comparable protection for discriminatory pricing by American manufacturers.

Were the lower court's invalidation of the Customs regulations to stand, then, the United States policy on parallel imports would be starkly at odds with the policies of our major trading partners. That is not in the national interest—a conclusion which Congress has already reached. Indeed, as noted in the United States petition (Pet. No. 86-625 at 8) (footnote omitted):

> The United States, the Department of the Treasury, and the Customs Service consider the Customs Service regulations an established element of the Nation's foreign trade policy. The regulations, which reflect the Customs Service's interpretation of a statute that Congress has charged it with administering, have been part of this country's international commercial policy for over 50 years.

### C. Parallel Import Sales Are Subject Both To Private Contract And Consumer Protection Regulation

Respondents have depicted the parallel import phenomenon as one causing (1) "an erosion of the return on trademark owners' investment in . . . goodwill . . ." and (2) "consumer welfare . . . [to] suffer" (COPIAT Br. at 3-4). These dramatic consequences—essentially allegations of both unfair competition and consumer injury—are allegedly attributable to the "free rider" characteristics of parallel import marketing. That is, respondents claim that retailers which sell parallel imports are "free riders" on the efforts of the authorized distribution chain (*id.* at 2-3). Discount retailers, it is contended, do not share the expenses of advertising and other promotional activities, including after-sales serv-



ices, nor, it is alleged, do they provide adequate warranties (*id.*). And, it is alleged, in the long run consumers suffer as a result (*id.*).

Those allegations are speculative and illogical. The free rider argument rests initially on the premise that a discount price retailer cannot afford to, and hence does not, provide adequate service. Evidence aside, that hypothesis is faulty. A low price need not result in less service; it is, instead, consistent with efficient operations and low profit margins. Conversely, a high price is no guarantee that services will in fact be performed by the dealer. Low prices and good service are not mutually exclusive; high prices and good service are not necessarily conterminous.

Theory aside, the free rider allegation ignores the substantial evidence that vendors of parallel imports offer services, including warranties and return policies, that are often more favorable than those offered by the manufacturer. *E.g.*, S. R. Walton, *Antitrust, RPM, and the Big Brands: Discounting in Small-Town America*, 14 Antitrust L. and Econ. Rev. 81, 85 (1982) (interview with executive of a major discount retailer: ". . . we don't have the frills but we have a satisfaction guaranteed policy, refunds without receipts, no questions asked and no accusations . . . .").[15]

In any event, even if there were a bona fide "free rider" concern with parallel imports, firms have many private options available to address that concern. Fore-

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[15] Senator Chafee recently stated that ". . . most discount retailers offer even more extensive warranties than the manufacturers. Sales of parallel imports would not continue to rise year after year if consumers were being deceived or confused by buying from price-competitive sources." 132 Cong. Rec. S8742 (daily ed. June 26, 1986). In addition, the *FTC Comments, supra* note 13, citing an unpublished Commerce Department study, found that grey market retailers "commonly offer their own warranties to replace the manufacturer warranty." Appendix A at 5 nn.12 and 13.

most among these are contract remedies. This Court has sanctioned contract clauses by which a manufacturer prohibits its authorized distributors from transshipping goods to unauthorized distributors. *E.g.*, *Rice v. Norman Williams Co.*, 458 U.S. 654 (1982).[16] Such contract provisions, if not unreasonable, can protect a manufacturer which claims a need to restrict sales to only "authorized" outlets.

A manufacturer also may, in certain instances, allege tortious interference with contractual relations if the manufacturer can establish that a seller of parallel imports obtained the goods by inducing the unjustified breach of contract by an authorized distributor.[17] Of course, such a lawsuit will necessarily entail questions of knowledge, intent, and consent.[18] It appears that a trademark holder may also have some remedies under the trademark laws if a retailer of parallel imports falsely represents that it is authorized by the manufacturer to sell those goods.[19] Finally, there may also be

[16] *See also Sports Center, Inc. v. Riddell, Inc.*, 673 F.2d 786 (5th Cir. 1982). Domestic manufacturers, which do not enjoy any statutorily-mandated restricted distribution rights comparable to those claimed by respondents under § 526, have long employed these private means. It would be ironic, indeed, if § 526—a statute intended to protect American companies—were construed to give foreign manufacturers restricted distribution entitlements not enjoyed by domestic manufacturers. Such a result could conceivably encourage domestic manufacturing to move offshore to take advantage of restricted distribution protection mandated by public law.

[17] B. Coggio, J. Gordon, and L. Coruzzi, *The History and Present Status of Gray Goods*, 75 Trademark Rep. 433, 491-493 (1985).

[18] *Cf. Johnson and Johnson Products, Inc. v. DAL Int'l Trading Co.*, 798 F.2d 100 (3d Cir. 1986) (construing applicability of Uniform Commercial Code provisions on good faith purchaser to vendor of grey market goods).

[19] *See Seiko Time Corp. v. Alexander's, Inc.*, 218 U.S.P.Q. 560 (S.D.N.Y. 1982).



trademark remedies in private litigation where the product involved is in fact not "genuine".[20]

Part of the policy underlying the Customs regulations is the recognition that private suits are best suited to address the complex fact patterns of each parallel import case. For example, there are many defenses to a trademark infringement suit—defenses which would never be considered if § 526 were construed as an automatic bar to entry for all parallel imports. The defenses of estoppel, laches, failure to control, and abandonment are applicable in trademark cases.[21] The Federal Circuit recognized the importance of such defenses in parallel import litigation in *Vivitar Corp. v. United States*, 761 F.2d 1552, 1570 (Fed. Cir. 1985), *cert. denied*, 106 S.Ct. 791 (1986). *See also Lever Bros. Co. v. United States*, No. 86-3151, slip op. at 5 (D.D.C. Jan. 21, 1987) ("the variations in gray market importation are extensive and confusing.").

These private remedies—contract opportunities and litigation—assure trademark holders that competition with sellers of parallel imports will be fair. Certain public laws also assure that consumers will be protected. For example, the Federal Trade Commission, under the Magnuson-Moss Warranty Act[22] and the Federal Trade

[20] *E.g.*, *Model Rectifier Corp. v. Takachiho Int'l, Inc.*, 221 U.S.P.Q. 502 (9th Cir. 1983); *El Greco Leather Products Company v. Shoe World, Inc.*, Nos. 86-7032 and 86-7038, slip op. (2d Cir. December 3, 1986); *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19 (S.D. Fla. 1985).

[21] *E.g.*, *Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416, 420 (S.D. Fla. 1983) (discussing trademark holder's delay in seeking to enjoin parallel imports).

[22] The Magnuson-Moss Warranty Act ("the Act") (15 U.S.C. §§ 2301-2312 (1982)) and the implementing regulations (16 C.F.R. § 700 (1986)), serve to eliminate confusion over product warranty terms. The Act sets out specific requirements for warranties. 15 U.S.C. § 2304. Manufacturers are required to honor the written

Commission Act,[23] is active in the field. The FTC has the authority to prosecute retailers which engage in unfair or deceptive practices, to enforce the Magnuson-Moss Warranty disclosure rules, and to initiate rule-making on consumer protection questions. Because the FTC is better suited to those tasks than is Customs, the Customs regulations quite properly do not try to bar entry of selected kinds of parallel imports.

State governments have also been active in this field. California, Minnesota, and Oregon have recently enacted consumer product warranty acts[24] and the New York State legislature recently passed a statute requiring specific warranty disclosures in the sale of parallel imports. The New York statute exempts sellers from the disclosure requirement where the seller provides a warranty "as good or better" than the warranty provided from the manufacturer.[25]

warranties they provide with their product unless they explicitly disclaim those warranties in writing. As a result, a foreign manufacturer has the option of disclaiming its warranty on products it does not intend to sell in the United States market by placing a clear and conspicuous label on those goods. 15 U.S.C. §§ 2302 (a) (12), 2304(3). And a manufacturer can notify consumers that a warranty is valid only if the product is purchased at an authorized outlet. If the manufacturer does not disclaim or condition its warranty, then it is required by federal law to honor it.

[23] 15 U.S.C. § 45(a) (1973 and Supp. 1986). The *FTC Comments, supra* note 13, affirmed that the Commission had undertaken investigations, under authority of the Federal Trade Commission Act, of various practices associated with the sale of grey market goods. The Commission noted that there was insufficient evidence of systematic problems and insufficient evidence "to substantiate claims of consumer injury resulting from the warranty practices of grey market importers" (*id.* at Appendix A at 6).

[24] *See* Cal. Civ. Code §§ 1790-1797 (1985 and Supp. 1987); Minn. Stat. Ann. §§ 325G.17-325G.20 (West 1981); Oregon Rev. Stat. Ann. §§ 72-8010 to -8200 (1985). *See* D. Rice, *Product Quality Laws and the Economics of Federalism*, 65 B.U.L. Rev. 1 (1985).

[25] N.Y. Gen. Bus. Law 218-aa(7) (McKinney 1987).



In short, there are already extensive federal and state regulations which ensure fair competition and protection of the consumer in the marketing and sale of parallel imports. What is not needed is a total ban on parallel imports. Congress has never sought such a harsh—indeed absurd—result. Rather, in § 526, Congress acted only to correct the mischief of *Katzel*.

## CONCLUSION

For the above reasons, the decision of the Court of Appeals for the District of Columbia should be reversed. The United States Customs Service regulations, which for half a century have allowed the entry of parallel imports in "related persons" circumstances, correctly serve Congress' intent.

Respectfully submitted,

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February 21, 1987

# AMICUS CURIAE

# BRIEF

No. 86-495 (14)
86-624 (14)
86-625 (13)



IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

CORRECTED COPY

THE UNITED STATES OF AMERICA,
K MART CORPORATION, and
47TH STREET PHOTO, INC.,

*Petitioners,*

—v.—

COALITION TO PRESERVE THE INTEGRITY OF
AMERICAN TRADEMARKS, CARTIER, INC., and
CHARLES OF THE RITZ GROUP, LTD.,

*Respondents.*

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT
OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

## AMICUS CURIAE BRIEF OF THE NATIONAL ASSOCIATION OF CATALOG SHOWROOM MERCHANDISERS

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February 21, 1987

## QUESTION PRESENTED

Does United States law permit the sale of trademarked goods, initially purchased from the foreign manufacturer overseas but sold domestically, without the "authority" of the marketing affiliate of the foreign manufacturer?

## PARTIES TO THE PROCEEDING

The petitioners are The United States of America, K Mart Corporation and 47th Street Photo, Inc. The respondents are Coalition to Preserve the Integrity of American Trademarks (COPIAT), Cartier, Inc. and Charles of the Ritz Group, Ltd. The petitions have been consolidated for consideration by the Court, upon Motion of petitioner United States of America.

### Rule 28.1 Listing

Amicus, the National Association of Catalog Showroom Merchandisers states that it is a national trade association of discount retailers, that has no parent companies, subsidiaries or affiliates to list pursuant to Rule 28.1.

## TABLE OF CONTENTS

## TABLE OF AUTHORITIES

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86-624
86-625

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*Respondents.*

## AMICUS CURIAE BRIEF OF THE NATIONAL ASSOCIATION OF CATALOG SHOWROOM MERCHANDISERS

### INTEREST OF THE NATIONAL ASSOCIATION OF CATALOG SHOWROOM MERCHANDISERS AS AMICUS CURIAE IN SUPPORT OF APPELLANTS

The National Association of Catalog Showroom Merchandisers ("NACSM"), incorporated under the laws of the State of New York in 1972, is a trade association representing approximately 2,000 discount retail stores which do approximately $10 billion in annual sales. NACSM members range in size from

retailers doing billions of dollars in annual sales, to small businesses with sales of several million dollars per annum. All use a catalog, showing brand name products, as a principal medium of advertising. They provide essentially the same services as their retail competitors and sell a wide variety of mass merchandised consumer products, many of which are made overseas by foreign manufacturers and imported into the United States, either by the U.S. marketing subsidiary of the foreign manufacturer, or by independent American importers. Catalog showrooms sell these imported consumer products at discount prices, substantially less than those at which the "authorized" dealers ordinarily sell the same product. In recent years there have been numerous attempts by certain foreign manufacturers to prevent such consumer products from reaching the hands of "price cutting retailers" such as catalog showrooms, which has culminated in the proceeding presently before the Court.

NACSM believes this case raises important issues for domestic and international trade and argues in support of the petitioners that the United States Customs Service ("Customs Service") may, and should, permit goods bearing a valid trademark to be imported without the consent of the U.S. marketing affiliate of the foreign manufacturer.

Catalog showrooms sell, or have sold and anticipate selling in the future, a variety of products purchased from parallel sources, that is from other than the authorized U.S. distributor, such as Japanese watches and cameras, and European crystal and glass. They consider the term "grey market" a misnomer in describing open and healthy competition in identical merchandise purchased from the same foreign manufacturer.

Catalog showrooms consider the potential competition from these alternate sources a very strong disciplining factor in the U.S. market that well serves their interests, and those of the ultimate user, the consumer.

## STATEMENT OF THE CASE

While this case is an appeal from the decision of the United States Court of Appeals for the District of Columbia Circuit,



it raises deep concern about attempts to prevent parallel imports and their serious domestic competitive impact, as well as foreign trade implications far broader and more serious than the mere expansion of domestic intellectual property rights. At issue is whether a foreign manufacturer can sell goods and put them into the free flow of international commerce, yet subsequently prevent domestic competition because of its marketing subsidiary.

Most often it is the United States marketing subsidiary of the manufacturer which objects to the "unauthorized" importation and sale of these goods in North America. Canada's highest court has already ruled that such imports are permissible[1] as have most other U.S. trading partners.[2]

It is presently being alleged in various forums that such practices violate U.S. trademark law[3], or copyright law[4], or contract law, or our criminal statutes.[5] Ultimately the matter may need be resolved by the Congress,[6] but there is compelling reason for this Court to presently uphold the position of the federal government.

[1] *Consumers Distributing Co. Ltd. v. Seiko Time Canada Ltd.*, File No 18970 (Supreme Court Canada 1984)

[2] See Takamatsu, *Parallel Importation of Trademarked Goods A Comparative Analysis*, 57 Wash L Rev. - 433 (1982)

[3] 15 U.S.C. 1124

[4] 17 U.S.C. 602 (a)

[5] See Kelly, *An Overview of the Influx of Grey Market Goods Into the United States*, Vol 11/12 North Carolina Journal of International Law & Commercial Regulation, 231 et seq (1986); UCC 2-403; provides that an intermediary conveys good title to subsequent purchasers in the distribution chain; for varying views on criminal activity see *U.S. v. Weinstein*, 76 F 2d 1522 (11th Cir 1985) and *U.S. v. Boxer*, Case No. 72 Crim 462-J. Ryan, Tr. at pp 863-6 (SDNY, 1986).

[6] Senate Bill 2614, introduced into the 2d Session of the 99th Congress (1986) provided for clarification of Congressional intent to make clear that parallel imports are permissible under all federal laws. A similar measure is expected to soon be introduced into the 100th Congress.

## SUMMARY OF ARGUMENT

We believe it critical to recognize seven factors in weighing the advantages of such international competition.

First, the parallel import (grey market) issue only arises, by definition, when the foreign manufacturer and the U.S. authorized distributor are related companies.

Second, by and large these products are all manufactured overseas and so this is not an issue of protecting U.S. industry.

Third, the foreign manufacturer has received the profit it set on the manufacture of the product when it made the first sale of this merchandise in international commerce.

Fourth, the foreign manufacturer has it totally within its own control to differentiate geographical markets by using differing trademarks.

Fifth, parallel imports exist because manufacturers, for their own reasons (ordinarily to reap an above-competitive profit in U.S. markets), set a price differential between worldwide prices and the prices their affiliate charges in this country.

Sixth, by seeking to control American markets, foreign manufacturers gain advantages inimical to U.S. interests, and contrary to the parallel import policy of virtually every U.S. trading partner.

Seventh, there is no compelling reason to reverse fifty years of legislative and judicial precedent interpreting Section 526 of the Tarriff Act of 1930.[7]

American importers provide an obstacle to price control of U.S. markets because they can purchase identical merchandise overseas at the competitive price and ship and sell these goods,

[7] 15 U.S.C. 1526



often with their own superior warranty, at prices well below what the manufacturer's affiliate prefers to charge in North America.

The major consequence of such free and open competition has been lower prices of billions of dollars a year to American consumers.

## ARGUMENT

It is a marketing reality of 1987 that brand consumer products sold in America are often made overseas and sold through mass merchandise channels of distribution. Parallel imports are only a portion of this international flow of product. By legal definition, such "grey market" concerns only goods sold abroad by affiliates of U.S. trademark owners, since American citizens owning U.S. trademark rights who are unrelated to the foreign manufacturer have an indisputable right to prevent importation.[8]

In determining legislative intent after fifty years of Congressional acquiescence, we respectfully argue that it is not inappropriate to take judicial notice of some of the harm Congress may have considered in refusing to ban parallel imports.

It does not contribute to the efficient allocation of resources in distribution of supplies throughout the economic channels of distribution for the United States, alone among the major U.S. trading partners, to "legitimize" geographical price discrimination of foreign manufacturers through a concept of a separate "territorial" submarket for the same trademarked product placed into international trade.[9]

Preventing "unauthorized" imports encourages what has been documented as higher prices to U.S. consumers of up to thirty

[8] 19 C.F.R. 133; 15 U.S.C. 1526; 15 U.S.C. 1124.

[9] See Stigler, *The Organization of Industry*, University of Chicago Press (1983), p.9, as to the dual function of the efficient allocation of resources through both the manufacturing and distribution segments of our economy.

percent (30%) or forty percent (40%) for the identical merchandise. *Copiat v. U.S.*, 598 F Supp 844 (DDC 1984).[10]

Those foreign manufacturers, which can control the channels of distribution for parallel imports achieve the potential to avoid U.S. income taxes. This is made possible by charging an arbitrarily high wholesale price to wholly owned U.S. marketing subsidiaries, thereby shifting the excess gain earned in this country to an obscure earlier portion of the transaction.[11] Thus, there seems an added "tax-saving" incentive for foreign manufacturers to stop the price discipline provided by alternative sources for these goods.

Catalog showrooms can thus express a certain scepticism when opponents of such unauthorized imports call them "grey market goods" and stress the "unauthorized" nature of such sales, alleging misrepresentation as to the manufacturers' warranty. In examining claims for special protection for trademark territoriality of parallel imports under intellectual property rights statutes, we respectfully suggest that it is useful to adopt the approach of this Court, most noticeable in antitrust cases, in refusing to allow purported characterization or label classification to override market realities.

An initial perspective is suggested by the companion decisions of this Court in *Sears v. Stiffel*, 376 U.S. 225 (1964), and *Compco v. Daybrite*, 376 U.S. 234 (1964). In those cases the Court determined that simulation of lamp designs in what is commonly called in the retail trade as "knockoffs" was not unfair competition. The Court stressed that if a product was not sufficiently

[10] The District Court opinion in the case at bar refers to such percentage differentials in retail price for the same merchandise; the public record submitted to the U.S. Customs Service pursuant to 49 Fed Register Notice 99 (5/21/84) provides similar information; see particularly the submittal of the National Association of Catalog Showroom Merchandisers - Sept. 1984.

[11] For general judicial recognition of the ability of foreign manufacturers to set different prices than those paid by independent American importers see *F & O Trading Corp. v. U.S.*, 580 F 2d 414 (1978); *Hamrick v. U.S.*, 585 F 2d 1015 (1978).



unique to merit a monopoly granted under federal intellectual property laws, it could be sold with impunity. Simply put, there are limits to the need to restrict competition in order to encourage "creativity." We believe the present situation clearer, since parallel imports are identical goods made in the same plant by the same manufacturer. The presumption should be that if the creator of the product has made its first sale and earned its profit incentive, the moment of control has passed.

*Trademarks and The Tariff Act*

Section 526 (a) of the Tariff Act of 1930 provides that in the absence of written consent of a trademark owner, it is unlawful to import into the United States merchandise of foreign manufacture that bears a registered trademark owned by a citizen of, or by a corporation or association created or organized within, the United States if filed with the Secretary of the Treasury in the manner provided by section 42 of the Lanham Act.

Section 42 of this Act, 15 U.S.C.1124, provides that no article of imported merchandise which shall copy or simulate a trademark shall be admitted to entry at any custom house of the United States. The Custom Regulations implement both Section 526 of the Tariff Act and Section 42. However, Section 42 has been construed to require the Lanham Act to apply only to merchandise bearing counterfeit or spurious marks that copy or simulate genuine trademarks. *Olympus Corp. v. U.S.*, 627 F.Supp 911 (EDNY 1985) (as discussed in the memorandum opinion of Judge Sifton).

The Second Circuit Court of Appeals in the *Olympus* case specifically concluded that Congressional acquiescence in the longstanding administrative interpretation was a valid exercise of customs enforcement discretion.

The Second Circuit has rejected the D.C. Circuit's decision in *Copiat* stating: "We disagree with that court's conclusion that "the Customs Service's interpretation of Section 526 does not display the necessary thoroughness, validity and consistency to merit judicial acceptance, at least in the face of Congressional

acquiescence in that interpretation." *Olympus Corp. v. United States*, 792 F.2d 315 (1986).

The decision before this Court on appeal presents conflict that must be resolved if there is not to be a severe disruption of international trade.

The Common Market as well as virtually every other foreign jurisdiction have examined the same issue, and none have concluded that there is a basis for such a non trade barrier as to prevent parallel imports. Not a single U.S. trading partner prohibits parallel imports.[12]

While the various federal courts have been in conflict on the issue, the Second Circuit Court of Appeals has been consistent in upholding the position of the Customs Service. In *Bell & Howell: Mamaya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d. Cir. 1983) the Second Circuit reversed the District Court, lifting a preliminary injunction on the grounds that since these were legitimate goods of the foreign manufacturer there was no confusion by consumers as to the source of the goods.

Other Courts have similarly held. In *Parfums Stern, Inc. v. The U.S. Customs Service, et al.*, 575 F. Supp. 416 (S.D. Fla 1983), the Court also rejected the request for a preliminary injunction, stating:

> "The Court further finds that in the exercise of its prerogative to cause the Oscar de la Renta products to be placed into the international stream of commerce, the plaintiff and its affiliated companies have found themselves in circumstances wherein their products are finding their way into the United States not by way of or through any illegal means and, therefore, the Plaintiff which holds the United States trademark is seeking the protection of the trademark laws to

[12] See Takamatsu, *Parallel Importation of Trademark Goods: A Comparative Analysis*, 57 Wash. L. Rev 433 (1982).



> insulate itself from what it placed in motion itself through its own foreign manufacturing and distribution sources.
>
> *Additionally, the Court finds that the Plaintiff's international enterprise was paid and receives compensation for the Oscar de la Renta products which are manufactured and produced by one of the Plaintiff's entities.* . . . Therefore, there is no evasion of legal rights flowing either to the manufacturer in the first instance or to the person or entity entitled to the royalties. What is occurring is that a complete circle has brought some of the Plaintiff's products back to haunt it in the United States". *Id.* at p. 7.

When faced by the issue the Canadian Supreme Court in the *Consumers Distributing Co. Ltd. v. Seiko Time Canada Ltd.*[14] case strongly supported parallel imports.

However, merely upholding U.S. Customs Service Regulation 19 C.F.R. 133 as an established element of the nation's foreign trade policy will not, in itself, resolve the serious ambiguity threatening open competition in international commerce for such foreign made merchandise. Only a definitive statement from this Court that proper interpretation of Congressional intent requres the conclusion that the federal statutes be properly construed in *pari materia* and that parallel imports are permissible under all federal statutes, including the Lanham Act[15] and federal antitrust law will fully address the problem before this court.[16]

[14] *Consumers Distributing Co. Ltd. v Seiko Time Canada, Ltd.*, Docket No 16970 (1984); accord *Wilkinson Sword (Canada v. Juda*, 2 Can. Exch. 137 (1968); see also *Vivitar Corp. v. United States*, 593 F. Supp 420 (C.I.T. 1984).

[15] 15 USC 1124

[16] 15 U.S.C. 1; see *U.S. v. Guerlain, Inc.* 155 F Supp 77 (SD NY 1957); 358 US 915; 172 F Supp 107 (1958); see also *Timken v. U.S.*, 34 U.S. 593 (1951).

This brief will not repeat the detailed legislative history so carefully researched by the parties and reviewed by the various federal courts considering the issue. However, it seems appropriate to note that in the *Vivitar* decision before the United States Court of International trade, Judge Jane Restani, after a scholarly and exhaustive review of the legislative and judicial history of the regulations, lastly noted:

> "Congress is best suited to determine whether the current balance in trademark rights in international commerce is inappropriate."[17]

Furthermore, as noted above, it should be recognized that the governments of Canada, Japan, and Europe have refused to so protect manufacturers claiming "intellectual projects rights" at the expense of their own consumers. It appears a particularly inopportune moment to reverse fifty years of federal action, for the benefit of extra profits for foreign manufacturers upon a supposition of Congressional intent as perceived by the Court of Appeals for the District of Columbia Circuit.

As more fully discussed in Kelly, *An Overview of the Influx of Grey Market Goods Into the United States*,[18] the writers urge that there is more than sufficient legislative history to permit parallel imports and in balancing higher prices to consumers against perceived benefits of promoting these foreign made goods it is useful to reflect that protection of American industry is not the issue.[19]

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[17] *Vivitar Corporation Inc. v. U.S. et al.*, 585 F Supp 1419 (CIT 1984); see also *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), cert. denied, 106 S.Ct. 791 (1986); *Vivitar Corp. v. United States*, 593 F. Supp. 420 (CIT 1984).

[18] Vol 11, Issue 2, The North Carolina Journal of International Law & Commercial Regulation 231 (1986).

[19] S. 2614 introduced into the 99th Congress is discussed at footnote 6. Most of the other issues raised by opponents of the "grey market" appear designed

*(Footnote Continued)*



*A Solution for the Foreign Manufacturer*

There does remain one very real solution for foreign manufacturers who perceive "problems" from the "grey market." If the manufacturer cannot ban parallel imports, or prevent the use of the brandname, it has it solely within its own power to use different marks for overseas and American markets. These foreign manufacturers alone control what marks they affix to the products they sell in Japan, Europe, the United States and elsewhere. The camera or watch can be designated Aco, Bco, Cco, etc. if the manufacturer wishes to designate intended separate geographical markets for its products. Then the consumer would readily know the intended market. But this is not often done because it is not often the real intent. We are well into a worldwide economic distribution system that cannot be ignored.

This "globalization" of markets, however, rests upon the economic assumption that the most efficient allocation of resources will be achieved without geographic price discrimination by sellers. Particularly when it is American citizens who are the intended victims of the scheme, it appears appropriate for this Court to reaffirm its intent not to allow a diminution of competition in the distribution sector of our economy.

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more to cloud than to enlighten the debate. One of these is the issue of manufacturers' warranties. However, federal law, the Magnusson Moss Warranty Act, 15 USC 2301 et seq seems to provide for any requisite disclosure. The reality of the marketplace is that most grey market goods are mass merchandised products which have the warranty of the distributor with conditions equal to or greater than the comparable manufacturer warranty. This was recognized by the New York legislature, the first state legislature to pass a law specifically governing the subject. General Business Law Section 218(eee) which provides for disclosure that there is no manufacturer's warranty unless a retailer, distributor, importer or other financially responsible person provides such a warranty. A similar state law has been passed by the state of California (Assembly Bill 2735) Statutes of 1986, Chapter 1497.

## CONCLUSION

Development of trade is dependent upon the retail store as the ultimate distributor. The search for a more efficient allocation of resources in our open distribution system has led to a variety of intermediary wholesalers and innovative retailers such as department stores, chains, discounters, and catalog showrooms. They find a better way not only to display and sell the product, but to go back to a wide variety of domestic as well as international sources to purchase.

Any attempt to stifle such open competition is suspect.

The National Association of Catalog Showroom Merchandisers respectfully requests that the Court reverse the United States Court of Appeals for the District of Columbia Circuit, in the public interest.

Respectfully submitted,

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February 21, 1987

# AMICUS CURIAE

# BRIEF

(15) (13) (14)



Nos. 86-495, 86-624, and 86-625

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

K MART CORPORATION,
*Petitioner*
v.
CARTIER, INC., *et al.*

47TH STREET PHOTO, INC.,
*Petitioner*
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

UNITED STATES OF AMERICA, *et al.*
*Petitioners*
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

# BRIEF OF AMICUS CURIAE CONSUMERS UNION OF U.S., INC. IN SUPPORT OF PETITIONER

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18 pp

## TABLE OF CONTENTS

## TABLE OF AUTHORITIES



IN THE
# Supreme Court of the United States
OCTOBER TERM, 1986

---

Nos. 86-495, 86-624, and 86-625

---

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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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## BRIEF OF AMICUS CURIAE CONSUMERS UNION OF U.S., INC. IN SUPPORT OF PETITIONER

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## INTEREST OF THE AMICUS CURIAE

Consumers Union of U.S., Inc.[1] ("Consumers Union") has obtained consent from all the parties to this case to submit this brief, and it has filed the consent letters with the Clerk of the Court.

Consumers Union is a non-profit membership organization that regularly engages in consumer advocacy before the executive, judicial, and legislative branches of government. A longstanding part of Consumers Union's advocacy on behalf of consumers has been related to the promotion of competition in the marketplace. With this goal in mind, Consumers Union has repeatedly acted to help rationalize markets by ensuring the availability of information about goods and services. In the international trade area, it has promoted the reduction of tariff barriers, quotas, limitations on parallel imports and other devices that prevent consumers from availing themselves of the advantages of international interbrand and intrabrand competition. (Consumers Union carried an article on parallel imports in its May, 1985, issue of *Consumer Reports Magazine.)*

[1]Consumers Union is a nonprofit membership organization chartered in 1936 under the laws of the State of New York to provide information, education and counsel about consumer goods and services and the management of family income. Consumers Union's income is derived solely from the sale of *Consumer Reports,* its other publications and films. Expenses of occasional public service efforts may be met, in part, by nonrestrictive, noncommercial contributions, grants and fees. In addition to reports on Consumers Union's own product testing, *Consumer Reports,* with approximaely 3.5 million paid ciruclation, regularly carries articles on health, product safety, marketplace economics, and legislative, judicial, and regulatory actions which affect consumer welfare. Consumers Union's publications carry no advertising and receive no commercial support.



Many of Consumers Union's members purchase imported cameras, watches, home electronic devices and other goods that are imported through parallel channels and, thus, receive the benefits assured by the Customs Service's regulation, 19 C.F.R. section 133.21(c)(1)-(3) ("the Regulation"), which is at issue in this case.

## SUMMARY OF ARGUMENT

The Regulation provides great benefits to consumers in the form of lower prices and greater product choice. It enhances intrabrand competition, which is of great importance in maintaining low consumer prices where there is imperfect interbrand competition due to market structure, strong consumer brand preference, or other factors.

The attempt by the Coalition to Preserve the Integrity of American Trademarks ("COPIAT") to discredit the Regulation on the basis of antitrust principles is misdirected. The case law applicable to vertical restraint agreements does not apply to the situation addressed by the Regulation because the Regulation does not invalidate vertical restraints. Rather, it applies to third parties who are not parties to any vertical restraint agreement. In soliciting the United States government to impede the free flow of goods bearing genuine trademarks into this country, COPIAT is urging the government to create a territorial marketing division between the United States and the rest of the world. The same purpose and result of such an action would be achieved by a horizontal marketing restraint, which would be *per se* illegal under our antitrust laws. COPIAT's request for this type of governmental interference in world markets should be denied because it violates traditional American antitrust principles.

Congress ratified the Regulation's distinct treatment of a U.S. trademark owner that is affiliated with the foreign trademark owner when it passed the Lanham Trademark Act of 1946. Additionally, the only way to make sense of both section 42 of the Lanham Act and section 526 of the Tariff Act of 1930 is through the interpretation reflected in the Regulation.

## ARGUMENT

This Court has indicated that an important factor in determining the validity of an agency regulation is the strength of the reasoning it reflects.[2] Under this criterion, the Regulation at issue here should be preserved because it implements sound antitrust policies that accrue to the benefit of the United States economy and to American consumers.

### I. THE REGULATION SHOULD BE PRESERVED BECAUSE IT REFLECTS SOUND ANTITRUST PRINCIPLES

#### A. Consumers Benefit Greatly From Parallel Imports

The great benefits consumers derive from parallel imports are the lower prices and the abundance of product choices that result from a competitive marketplace. These benefits are evident by looking at parallel imports in the U.S. marketplace.

Parallel importers often are able to purchase products from authorized distributors abroad and resell them in the United States at prices significantly below those set by

[2]*Federal Election Comm. v. Democratic Senatorial Campaign Comm.*, 454 U.S. 27 (1981); *Skidmore v. Swift and Co.*, 323 U.S. 134 (1944).



retailers working through authorized United States distributors. This reflects the great disparity in prices set by the foreign and domestic distributors.

One example of the reduced retail price that results from parallel importing is reflected in the products offered by 47th Street Photo. Because of a $272 difference in wholesale price, a Hasselblad 150 millimeter F4CF lens generally retailed in the United States in 1986 for about $1,100 while 47th Street Photo sold it for $849.[3] The U.S. distributor's suggested retail price for a Tokina 35-200 millimeter camera lens in 1986 was $239.15. 47th Street Photo sold the lens for $219.[3a]

Beside lower prices for identical products, consumers are also provided a greater selection of merchandise because of the role played by parallel imports. Parallel importers are able to purchase products from authorized foreign distributors that are simply not available from U.S. distributors. For example, at one time Vivitar made a newly developed slide printer available only to its foreign distributors. United States consumers were only able to obtain the product through parallel importers.[4]

COPIAT has suggested that American consumers are harmed by parallel imports because the imports can be damaged when they are put on the American market through unauthorized channels.[5] The erection of an unconditional barrier to parallel imports is certainly an overly-broad

[3]Joint Appendix (JA) on Appeal at 2. *See also* Appendix B to Comments filed by the Bureaus of Competition, Consumer Protection, and Economics of the Federal Trade Commission in opposition to U.S. Custom Service proposal to "demark" parallel imports (Oct. 17, 1986).

[3a]JA on Appeal at 3.

[4]JA on Appeal at 9.

[5]COPIAT's Opening Brief on Appeal at 9.

remedy to such hypothetical claims, even if COPIAT could substantiate that they occur to any significant degree. Even if consumers were not adequately protected against this potential harm by implied rights of merchantability and by statutory prohibitions against deceptive and unfair practices, a more direct remedy that is not anticompetitive could be devised.

COPIAT has also suggested that consumers are harmed by parallel imports because they purchase such products under the mistaken belief that they are sold under manufacturer's warranty and with English language instructions.[6] To the extent consumers are misled regarding the applicability of a disclosed manufacturer's warranty, however, this can be corrected by COPIAT members themselves. Because foreign-manufactured products intended for sale abroad may make their way into the United States, the manufacturer has the responsibility to honor any stated warranty claims or to make it clear that its warranty guarantees are not applicable to purchases in the United States. To the extent consumer reliance may be reasonably based on false representations by the parallel importer, the consumer also has recourse to consumer protection statutes and the common law remedies against fraud and misrepresentation.

In sum, consumers receive the benefit of price competition and product diversity because of the Regulation allowing parallel imports. Any potential consumer harm associated with parallel imports is not created by the Regulation itself and elimination of the Regulation is an overbroad means to address it.

[6]*Id.;* COPIAT's Reply Brief on Appeal at 8.



**B. The Regulation Prevents Anticompetitive Conduct That Has No Counterpart In Cases Applying The Rule Of Reason Test To Vertical Restraints**

So long as the domestic trademark holder is affiliated with the foreign manufacturer, the Regulation permits any person to import articles bearing the genuine trademark. The Regulation thereby enhances intrabrand competition, which is of particular importance to maintaining low consumer prices where there is imperfect interbrand competition due to market structure, strong consumer brand preferences maintained through genuine or artificial product differentiation or for any other reason.

COPIAT has argued, however, that reliance on antitrust doctrines to justify the Regulation is unsound because they have been "discredited and repudiated."[7] In support of this overly-broad propositon, COPIAT has argued that, in some cases, vertical restraints on competition can have procompetitive effects, citing *Continental T.V., Inc. v. G.T.E. Sylvania, Inc.*, 433 U.S. 36 (1977). However, the *G.T.E. Sylvania* case has been misapplied by COPIAT and by the Court below.

*G.T.E. Sylvania* substituted a rule of reason test for the formerly used *per se* test in vertical restraint cases. Consumers Union agrees with the principle set forth there that, in certain circumstances, vertical restraints can increase interbrand competition and serve generally to benefit consumers. 433 U.S. at 54-56. However, it does not follow that the Court's ruling in that landmark case negates the

[7]COPIAT's Opening Brief on Appeal at 68. COPIAT has also suggested that antitrust liability cannot arise as a result of agreements between affiliated companies. *Id.* at 63. This is a plainly false proposition. *See* note 10 *infra*.

general validity and wisdom, in terms of antitrust principles, of the Regulation. Nor does it follow that the government should make it *per se* unlawful to engage in parallel importation, thus putting an insurmountable burden on the party seeking to compete instead of leaving to the party seeking to restrain competition the burden of doing so.

*G.T.E. Sylvania* and its progeny address situations in which manufacturers have imposed restrictions on their authorized distributors or retailers. For example, in *G.T.E. Sylvania,* the manufacturer limited the location from which authorized retailers could sell its product. When the manufacturer denied the request of one retailer to open a second outlet from which to sell the product, the retailer proceeded to do so in violation of the vertical restriction. When sued, the retailer raised an antitrust counterclaim.

In reversing the applicability of the *per se* test, this Court addressed only the competitive implications of the vertical restriction itself. It did not address the question of whether a *third* party, independent of the parties to the distribution agreement, could resell the product in the territory that the manufacturer had assigned to another authorized retailer. Nor have third party restrictions been at issue in rule of reason cases subsequent to *G.T.E. Sylvania.*

Thus, this case presents the Court with the third party restraint issue for the first time. The analogy of parallel distribution to the direct vertical restraint cases applies only to the relationship between the foreign manufacturer and its distributors. If, by imposing vertical restraints the manufacturer tried to limit the distribution of the trademarked product in the United States to authorized U.S. dealers, this would parallel the situation in *G.T.E.*



*Sylvania.*[8] However, the Regulation does not prevent this type of vertical restraint. Consequently, *GTE Sylvania* has no direct bearing on the Regulation's soundness in terms of antitrust principles.

### C. The Regulation Prevents COPIAT Members From Achieving The Same Purpose And Effect Produced By Horizontal Marketing Restraints, Which Are *Per Se* Illegal Under Our Antitrust Laws

Rather than prohibiting vertical restraint agreements, the Regulation prevents COPIAT members from realizing the same purpose and effect produced by horizontal marketing restraints, which are *per se* illegal under United States antitrust laws. As with all practices to which a *per se* rule applies, the action COPIAT requests is so anticompetitive that it should be resoundingly denied even if COPIAT could point to certain circumstances in which its anticompetitive effects were minimal or nonexistent.[9]

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[8]Indeed, if this case involved a challenge to vertical restraints imposed by the foreign affiliates of COPIAT's members, a rule of reason analysis would apply. In the context of that type of case, but not here, a COPIAT member as defendant could legitimately broach the arguments it has attempted here regarding the interbrand competition that might be spurred by elimination of intraband competition. But here, where the effort is to eliminate the possibility of any intrabrand competition for all trademarked products through the erection of a territorial wall, this type of "defense" should be dismissed out of hand. *See* note 9 *infra.*

[9]In *Northern Pacific R. Co. v. U.S.*, 356 U.S. 1, 5 (1958), this Court explained the appropriateness of, and the need for, *per se* rules: "There are certain agreements or practices which because of their pernicious effect on competition and lack of any redeeming virtue are conclusively presumed to be unreasonable and therefore illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use." In *U.S. v. Topco Associates, Inc.*, 405 U.S. 596, 610 (1972), this Court also stated: "In applying these rigid rules, the Court has consistently rejected the notion that naked

In soliciting the power of the United States government to impede the free flow of goods into the United States market, COPIAT is asking the government to create a division of customers and territories, a division between the United States and the rest of the world. This would allow United States manufacturers and distributors to control the quantity and price of the product within the United States without the threat to them of any intrabrand competition. The same anticompetitive purpose and result would be achieved if the United States manufacturer or distributor entered into an horizontal agreement with its foreign counterpart under which each were obligated to sell only to distributors or retailers that would keep the final sale of the product within each party's respective territory.

The horizontal agreement cases traditionally addressed by United States antitrust law involve agreements among competitors[10] to divide markets among themselves to eliminate intrabrand competition. The same purpose and effect is no less harmful if it is achieved through governmental action.

This type of division has long been considered *per se* illegal because it eliminates intrabrand competition.[11] It can

restraints of trade are to be tolerated because they are well intended or because they are allegedly developed to increase competition." (citations omitted)

[10]Corporate affiliates may be deemed "competitors"in the horizontal market division cases. In *Timken Roller Bearing Co. v. U.S.*, 341 U.S. 593 (1951), this Court applied the *per se* rule to a horizontal world market division involving trademarked products and corporate affiliates. *See U.S. v. Citizens and Southern National Bank*, 422 U.S. 86, 116 (1975).

[11]"This Court has reiterated time and again that '(h)orizontal territorial limitations . . . are naked restraints of trade with no purpose except stifling competition." 405 U.S. at 608. (citation omitted) The *per se* rule applies whether territories, customers, or product markets are divided. 405 U.S. 596.



even effect interbrand competition by thwarting downward pressures on prices. Thus, the Regulation comports with basic antitrust principles by avoiding governmental action that would have the same purpose and effect as that which is *per se* illegal among competitors.

### D. Parallel Imports Stimulate Competition in Several Ways

The third party sellers that COPIAT would restrict create healthy competition and product diversity in the United States. They legally purchase the genuine trademarked goods overseas. Where the products sold through authorized channels are also manufactured abroad, presumably the manufacturing costs are the same for both authorized and parallel imports.[12] Still, the third parties are often able to resell parallel imports at a price below the "authorized" price. This very fact demonstrates the importance to healthy competition of permitting parallel imports to continue under the Regulation. Even where the retail price differentials are minimal or nonexistent, the presence of parallel imports lowers the general market price that would otherwise prevail.

If part of the price differential can be accounted for by the provision through authorized dealers of associated services[13] (e.g., product demonstration, preparation, repair or greater return privileges), the consumers who purchase

[12]Where the authorized sales involve goods manufactured in the United States, domestic production costs may be higher than foreign, but there is no sound basis for denying consumers the benefit of lower prices produced by lower manufacturing costs.

[13]The assertion that the disparity in prices merely reflects differences in associated services was challenged below.

the parallel goods are merely demonstrating their preference for a lower price over such services. To the extent that such "services" may involve a manufacturer's warranty, rather than no warranty or a retailer's warranty, or English language operating or maintenance instructions, then so long as consumers are informed of the lack of these services, their selection of the parallel import is simply an expression of preference for lower price over greater service. The availability of such options should serve to enhance both intrabrand and interbrand competition.

In summary, the Regulation should be preserved and COPIAT's request for governmental interference in world markets should be denied because the regulation is soundly based on traditional antitrust principles.[14] The very survival of the discount market for goods that may be parallel imported depends on the Regulation. Parallel imports are an incentive against artificially inflated prices for products subject to the Regulation. They give consumers a choice between lower prices and product-related services. Price competition and consumer choice are basic elements of the market model which our most basic federal policies assume. This Court should reverse the decision below in order to uphold and preserve this policy.

[14]Section 33(b)(7) of the Lanham Act itself indicates that the Act is to be reconciled with the antitrust laws. It states that a registered, uncontestable trademark is conclusive evidence of the holder's exclusive right to the use of the mark in commerce unless, *inter alia*, "the mark has been or is being used to violate the antitrust laws of the United States." 15 U.S.C. section 1115(b)(7). In *Timken*, this Court stated: "A trademark cannot be legally used as a device for Sherman Act violations." 341 U.S. at 599.



## II. IN ITS ENACTMENT OF THE LANHAM ACT IN 1946, CONGRESS SANCTIONED THE AGENCY'S IMPLEMENTATION OF SECTION 526; ADDITIONALLY, THE REGULATION INTERPRETS THE LANHAM ACT AND SECTION 526 IN THE ONLY WAY THAT GIVES MEANING TO BOTH

COPIAT has ignored the fact that the Lanham Trademark Act of 1946 was passed after the Treasury Department had already issued the 1936 regulations that interpreted section 526 and a related precursor to section 42 of the Lanham Act[15] in the same way that is being challenged in this case.[16] Hence, Congress ratified the Regulation in passing the Lanham Act without amending either section. Moreover, even if this Court accepts COPIAT's assertion that the 1936 regulations were only intended to implement the precursor to section 42 of the Lanham Act,[17] then Congress' ratification of that interpretation still supports the Regulation as a valid implementation of section 526. This is because section 42 of the Lanham Act makes no sense, and is, in fact, nullified, if COPIAT's literal interpretation of section 526 prevails.

Section 42 of the Lanham Act, which prohibits the entry of goods that "copy or simulate" a trademark registered in the United States, is undeniably related to section 526.[18]

[15]Section 27 of the Trademark Act of 1905.

[16]The Treasury Department made it clear in issuing the 1936 regulations that they applied both to sections 526 and to what later became section 42 of the Lanham Act. T.D. 48,537 (1936), JA 27.

[17]COPIAT's Reply Brief on Appeal at 13.

[18]Indeed, COPIAT contradicts itself by ridiculing the notion that the 1936 regulation applied to both sections when it later states, "If Section 42 has a reach different from that of Section 526, the agency has never explained why there is a difference or just what the difference is." COPIAT's Opening Brief on Appeal at 73.

Not only does section 42 limit itself by explicit reference to section 526,[19] but it addresses the same subject matter. On its face, and with the judicial gloss of *A. Bourjois and Co. v. Aldridge,* 263 U.S. 675 (1923), it prohibits imports that bear the same trademarks as those registered by U.S. trademark owners.

Even COPIAT must surely concede that, by failing to invalidate the 1936 regulations in passing the Lanham Act in 1946, Congress ratified the regulations as the correct interpretation of section 42. Congress, then, must have also ratified the regulations as the correct interpretation of section 526 because any other analysis would make no sense. It would be incongruous if section 42 allowed the importation of goods bearing United States trademarks under certain circumstances but section 526 prohibited them unconditionally. The Regulation interprets section 526 in a way that gives meaning to both.

[19]Section 42 begins, "Except as provided in subsection (d) of Section 526 of the Tariff Act of 1930, . . ."



**CONCLUSION**

For the foregoing reasons, the decision of the Circuit Court of Appeals should be reversed and this case should be remanded to the District Court with instructions to dismiss the complaint.

Respectfully submitted,

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February 1987

# AMICUS CURIAE

# BRIEF

(16) (16) (15)

No. 86-495, 86-624, 86-625



IN THE

# Supreme Court of the United States

October Term, 1986

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*Petitioners,*

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS; CARTIER, INC., and CHARLES OF THE RITZ GROUP, LTD.,
*Respondents.*

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**On Writ of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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## AMICUS CURIAE BRIEF OF DARBY DENTAL SUPPLY COMPANY, INC., DENTAL WHOLESALERS, INC., and SPENCER MEADE DENTAL, INC.

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18pp

## Question Presented

Can an American affiliate of a foreign manufacturer invoke Section 526 of the Tariff Act of 1930, 19 U.S.C. 1526, to prohibit the parallel importation of gray goods?

## Parties to the Proceeding

The petitioners are the United States of America, K Mart Corporation and 47th Street Photo, Inc. The respondents are Coalition to Preserve the Integrity of American Trademarks (COPIAT), Cartier, Inc., and Charles of the Ritz Group, Ltd. The petitions have been consolidated for consideration by the Court, upon Motion of petitioner United States of America.



## TABLE OF CONTENTS

## TABLE OF AUTHORITIES

No. 86-495, 86-624, 86-625

IN THE

# Supreme Court of the United States

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---

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*Respondents.*

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**On Writ of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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## AMICUS CURIAE BRIEF OF DARBY DENTAL SUPPLY COMPANY, INC., DENTAL WHOLESALERS, INC., and SPENCER MEADE DENTAL, INC.

Darby Dental Supply Company, Inc., Dental Wholesalers, Inc. and Spencer Meade Dental, Inc. respectfully submit this brief as amici curiae in support of the petitioners The United States of America, K Mart Corporation and 47th Street Photo, Inc.*

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* Pursuant to Rule 36.1 of this Court consent to the filing of this brief has been granted by all parties. Their consents have been filed with the Clerk.

## Interest of *Amicus* Curiae

Darby Dental Supply Company, Inc., Dental Wholesalers, Inc. and Spencer Meade Dental, Inc. (herein called "Darby") are defendants in an action pending in the Eastern District of Pennsylvania entitled *Premier Dental Products Company* v. *Darby Dental Supply Company, Inc., et al.* (Civ. Action No. 85-1780) 794 F.2d 850 (3d Cir. 1986). That action is one of the many "gray goods" actions which have been the subject of intense controversy resulting in lawsuits such as the *COPIAT** case now before this Court.

In the *Premier* v. *Darby* case, a West German manufacturer, ESPE Fabrik Pharmazeutischer Praparate, GmbH ("ESPE") is the sole manufacturer of a patented polyether dental impression material sold under the trademark "Impregum". ESPE registered the trademark in the United States in 1968.

In 1974 ESPE designated Premier Dental Products Company ("Premier"), to be ESPE's exclusive United States distributor of Impregum.

Darby is a mail order supplier selling dental products and equipment to dentists. From the late 1970's through 1982 Darby brought Impregum from Premier. In 1983 Darby began buying Impregum in Europe from other ESPE Impregum distributors and importing it into the United States, rather than pay the higher prices charged by Premier. ESPE and Premier wanted to halt Darby's importation of Impregum to maintain their exclusivity on the American market.

* The case at bar is referred to as *COPIAT*.



Premier could not charge Darby with trademark infringement under the Lanham Act (15 U.S.C. 1114, 1124, 1125) or violation of the Tariff Act (19 U.S.C. 1526) because Premier did not own the trademark. ESPE could not charge Darby with trademark infringement because ESPE had sold the very Impregum Darby was importing,* and ESPE could not charge Darby under the Tariff Act because ESPE is not a United States citizen or a corporation created or organized within the United States (19 U.S.C. 1526(a)).

On June 20, 1984 ESPE and Premier implemented a plan they hoped would stop Darby's importation of Impregum while keeping control of the trademark and the product firmly in ESPE's hands. They entered into an "assignment" which purported to transfer the United States trademark in Impregum to Premier without consideration for, "the purpose . . . [of permitting] Premier to act against infringers and unauthorized importers of Impregum . . .". The assignment agreement required Premier to reassign the Impregum trademark to ESPE on demand.

This "assignment", which cost Premier nothing and transferred no power or control over the trademark or the product from ESPE to Premier, became the basis for charging that Darby's actions were illegal after June 20, 1984, whereas they had been proper prior to that day.

When Darby continued to import Impregum despite notice of the assignment, Premier sued to enjoin such im-

* See *Prestonettes, Inc.* v. *Coty*, 264 U.S. 359, 44 S. Ct. 350, 68 L. Ed. 731 (1924).

portation under the Lanham Act, 15 U.S.C. 1114, 1124 and 1125, and the Tariff Act, 19 U.S.C. 1526, and moved for a preliminary injunction. The district court granted the preliminary injunction, giving full force and effect to the "assignment" by holding that Premier was the owner of the United States trademark and was therefore entitled to invoke Section 526 of the Tariff Act against Darby.

The *Premier* v. *Darby* case is now pending before the District Court for trial. If the device employed by Premier and ESPE is ultimately successful in making Darby's parallel importation of gray goods illegal, this Court's decision in *COPIAT* will be of little importance. Any foreign manufacturer will be able to utilize Section 526 to stifle legitimate competition by entering into a trademark assignment with a designated exclusive American distributor. Then the designated exclusive distributor will invoke Section 526 to stop the importation of gray goods and the foreign manufacturer together with its distributor can charge Americans whatever they like without fear of competition. If such a device succeeds, Section 526, which was enacted to protect American citizens from fraudulent activities of foreign manufacturers, will have been turned on its head to protect foreign manufacturers in their schemes to bilk American consumers by charging higher prices for their products here than abroad.



## Summary of Argument

**Section 526 should not apply where title to the United States trademark is held by a subsidiary, an agent or a designated distributor of the foreign manufacturer because in such a case the United States title holder does not have the requisite ownership interest in the United States trademark required by the statute.**

## ARGUMENT

The key word in Section 526 is "owned". Senate debate prior to enactment highlighted the importance of ownership in the statute (62 Cong. Rec. 11,605) (1922) and the section was amended in conference to add the ownership requirement. (H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922)).

The statute was enacted to protect Americans who had purchased United States trademarks from foreign manufacturers and then faced competition from foreign goods bearing the same trademark placed on the goods by the foreign manufacturer who had sold his United States trademark rights. The legislation was in direct response to the *Katzel* case (*A. Bourjois & Co.* v. *Katzel*, 275 Fed. 539 (2d Cir. 1921), rev'd, 260 U.S. 689, 43 S. Ct. 244, 67 L. Ed. 464 (1923)) where an American purchaser of the Java trademark for face powder was confronted with such unfair competition.

It is impossible to read the short Senate debate on the statute without concluding that Section 516 was enacted to protect American companies that purchased and owned trademarks such as Bayer aspirin (Sen. McCumber, 72

Cong. Rec. 11,603), Hunyadi Janos water (Sen. Sutherland, 72 Cong. Rec. 11,603) or Java face powder (*Katzel*) and were threatened with competition from foreign goods bearing those very trademarks. Section 526 protects United States trademark owners who have valid, bona fide, beneficial economic, proprietary interests in the United States trademarks.

Differences over the role of the Customs Service when enforcing Section 526 have resulted in conflicting opinions in three Courts of Appeal related to the question of bona fide trademark ownership. These cases have interpreted the statute in the context of challenges to the validity of Customs regulations, 19 C.F.R. 133.21-(c)(1)-(3), which permit entry of foreign goods bearing a United States trademark if the United States trademark owner and the foreign manufacturer are the same or affiliated companies. In these three cases United States trademark claimants challenged the right of the Customs Service to exempt any foreign goods bearing a United States trademark from seizure at the border. *Olympus Corporation* v. *United States,* 792 F.2d 315 (2d Cir. 1986), aff'g 627 F.Supp. 911 (E.D.N.Y. 1985) ("Olympus"); *Vivitar Corporation* v. *United States,* 761 F.2d 1552 (Fed. Cir. 1985), *cert. den.,* 474 U.S. —— 106 S. Ct. 791, 88 L. Ed. 769 (1986) aff'g 593 F.Supp. 420 (Ct. Int'l Trade 1984), ("Vivitar"); *Coalition to Preserve the Integrity of American Trademarks* v. *United States,* 790 F.2d 903 (D.C. Cir. 1986) rev'g 598 F.Supp. 844 (D.D.C. 1984) ("COPIAT"). The conflicting decisions of these three Circuit Courts reflect a fundamental disagreement concerning the meaning of Section 526, and leave the Customs Service in a quandary as to its legal duty.



The D.C. Circuit in *COPIAT* found the statute so clear as to invalidate Customs regulations that limited Customs' duty to exclude all foreign goods bearing a trademark owned and registered by a United States Citizen or company. The Federal Circuit in *Vivitar* upheld the Customs regulations because, "protection under the statute is unclear or depends upon resolution of complex factual situations . . .", 761 F.2d at 1570.

The dispute over whether the statute is simple or complex, clear or unclear, is highlighted by the opinions of the Second Circuit majority and dissent in *Olympus.* The majority upheld the Customs regulations as a valid exercise of administrative enforcement discretion because the numerous variations in gray market situations would involve Customs in determining complex issues such as "isolable good will", "price discrimination" and "antitrust law". 792 F.2d at 320. The dissent described this as a "bootstrap argument", noting that "Enforcement of Section 526 as written is simplicity itself." 792 F.2d at 322. The dissent argued that the statute requires all gray market goods to be excluded, and Customs need not involve itself in the relationships of the foreign manufacturer and the United States trademark owner, or questions of domestic goodwill. Only by deciding in advance that Section 526 does not exclude all gray market goods, notes the dissent, does the statute become complex; so the complexity cannot logically be the rationale for deciding that Section 526 does not exclude all gray market goods.

This simply worded statute is the subject of varying interpretations because a literal interpretation (such as that adopted in *COPIAT*) without an analysis of the stat-

ute's purpose to protect bona fide American owners of United States trademarks,* yields a result that is in direct conflict with the purpose of the legislation. The Federal Circuit in *Vivitar* was dealing with this central concern (although not expressly identifying it as a question of "ownership") when it noted:

> While we have rejected the government's argument that the statute must be interpreted as limited by the regulations, we must also reject the view that the statute may not have any implied limitations or that general principles such as "agency," "piercing the corporate veil," "sham" transactions, "estoppel," "fraud" or other defenses could not defeat an apparent right to invoke the statute.

761 F.2d at 1570. (emphasis supplied by the court). All of these factors refer to the issue of bona fide, beneficial ownership of the United States trademark by the claimant or plaintiff.

Viewed in this light, the Customs regulations are consistent with Section 526 and with Congress's desire to protect beneficial owners of United States trademarks from unfair competition. The Customs regulations do not limit the breadth of the statute, but rather they specify the type of ownership required in order to invoke the remedies

* As Learned Hand has said:

> [I]t is true that the words used, even in their literal sense, are the primary, and ordinarily the most reliable, source of interpreting the meaning of any writing: be it a statute, a contract, or anything else. But it is one of the surest indexes of a mature and developed jurisprudence not to make a fortress out of the dictionary; but to remember that statutes always have some purpose or object to accomplish, whose sympathetic and imaginative discovery is the surest guide to their meaning. *Cabell* v. *Markham*, 148 F.2d, 737, 739 (2d Cir. 1945) aff'd, 326 U.S. 404, 66 S. Ct. 193, 90 L. Ed. 165.



provided by the statute. Section 526 requires that the trademark be beneficially "owned" by a United States citizen or company. The Customs regulations state that where the United States trademark owner is a company related to, affiliated with or controlled by the foreign manufacturer which placed the trademark on the goods, it is questionable whether the United States company possesses the requisite bona fide, economic ownership to invoke the statute. Customs is stating in the regulations that in such situations the real economic benefit of ownership is in the foreign parent or affiliate—and Customs will not enforce the statute for the benefit of an unintended foreign beneficiary.

This analysis resolves the apparent conflict between the statute and the regulations, and it explains fifty years of Congressional acquiescence in the regulations despite periodic review of the statute.* (The first limitation on the scope of Customs enforcement of Section 526 is found in the 1936 Customs regulations. See *Vivitar*, 761 F.2d at 1566.)

Amicus Darby asks this Court to reverse the D.C. Circuit's *COPIAT* decision and in so doing hold that Section 526 cannot be used by designated distributors of foreign manufacturers because they lack the requisite "ownership" interest in the United States trademark required by Section 526.

* It also explains disparate district court gray goods decisions such as *Parfums Stern Inc.* v. *U.S. Customs Service*, 575 F.Supp. 416 (S.D. Fla. 1983), *Osawa & Co.* v. *B & H Photo*, 589 F.Supp. 1163 (S.D.N.Y. 1984), *Weil Ceramics & Glass, Inc.* v. *Dash*, 618 F.Supp. 700 (D.N.J. 1985) and *Model Rectifier Corp.* v. *Takachiho International, Inc.*, 221 U.S.P.Q. 502 (9th Cir. 1983) where the courts struggled to determine whether the plaintiffs had real economic interest in a United States trademark before granting or denying relief.

Cases such as *Premier* v. *Darby* demonstrate the need for this Court to recognize and state that "ownership" of the trademark is the key concept in Section 526, the concept which justifies and supports the Customs regulations at issue in *COPIAT*. In so doing this Court should hold that local affiliates of foreign manufacturers, whether they be subsidiaries, agents or exclusive designated distributors, do not have the requisite independent ownership interest in the trademark to invoke Section 526, which by its very terms can be used only by a citizen which is the owner of the United States trademark.

If the Court fails to do so Section 526 will become a tool used by foreign manufacturers against independent American importers and American consumers. That is the opposite of what Congress intended for the statute.

## Conclusion

The Court should reverse the District of Columbia Circuit Court's ruling in *COPIAT*, and in so doing clarify by whom Section 526 can be invoked.

Respectfully submitted,

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## Certificate of Service

The undersigned hereby certifies that on February 20, 1987 Three (3) copies of the within Amicus Curiae Brief of Darby Dental Supply Company, Inc., et al. were mailed by first class mail to each of the following attorneys:

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# AMICUS CURIAE

# BRIEF

(18) (18) (17)

Nos. 86-495, 86-624, and 86-625



IN THE

# Supreme Court of the United States

OCTOBER TERM 1986

K MART CORPORATION,
*Petitioner,*
v.
CARTIER, INC., *et al.*

47TH STREET PHOTO, INC.
*Petitioner,*
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

UNITED STATES OF AMERICA
*Petitioners,*
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

## BRIEF FOR AMICI CURIAE YAMAHA INTERNATIONAL CORPORATION and YAMAHA ELECTRONICS CORPORATION, USA

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34pp

## TABLE OF CONTENTS

## TABLE OF AUTHORITIES

## TABLE OF AUTHORITIES—Continued





## TABLE OF AUTHORITIES—Continued

## TABLE OF AUTHORITIES—Continued





## TABLE OF AUTHORITIES—Continued

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UNITED STATES OF AMERICA, *et al.*,
*Petitioners,*

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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**BRIEF OF AMICI CURIAE IN SUPPORT OF THE POSITION OF RESPONDENTS**

**YAMAHA INTERNATIONAL CORPORATION**
**YAMAHA ELECTRONICS CORPORATION, USA**

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## INTEREST OF AMICI CURIAE

YAMAHA INTERNATIONAL CORPORATION and its wholly-owned subsidiary, YAMAHA ELECTRONICS CORPORATION, USA, are California corporations located and doing business in Buena Park, California. (Referred to

jointly hereafter as "Yamaha"). Yamaha is the exclusive U.S. distributor of musical instruments and sound equipment manufactured by Nippon Gakki Seizo Kabushiki Kaisha a/k/a Nippon Gakki Co., Ltd. of Japan. Yamaha is the owner by assignment of several U.S. trademark registrations.[1] Pursuant to Supreme Court Rule 36.2, the written consent of the parties accompanies this brief.

Since 1960, Yamaha has been engaged in the business of advertising, promoting and selling musical instruments and sound equipment across the country under the "Yamaha" trademarks. Such equipment includes stereo system components, digital sound field processors, compact disc players, speakers, mixing consoles, sound and tone generators, recorders, digital rhythm programmers, sound synthesizers, electric pianos and keyboards, and music computer systems. This equipment is well-known for its high quality performance and is used by consumers and professionals. Over the years, Yamaha has organized and maintained an extensive dealer network across the United States through well developed dealer licensing and training programs, for the distribution and sale of "Yamaha" musical instruments and sound equipment.

Yamaha has extensively advertised its products, including at trade shows, seminars, and training sessions, spending at least $50 million over the last few years, including over $15 million in 1986 alone. Utilizing its trademarks in advertising and in identifying its products, Yamaha has a vital interest in excluding imported goods bearing trademarks identical to its registered marks. Hence, Yamaha's interest in the issue before the Court results from its desire and obligation to protect consumers and the good will associated with its famous trademarks, as well as to preserve the integrity of its dealer network and distribution system.

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[1] For example, "Yamaha", Registration No. 893,186 registered on June 23, 1970 and "Yamaha Tuning Fork Design", Registration No. 1,013,806 issued on June 17, 1975.



In a single step, certain U.S. registrants can record their trademarks with Customs, receiving protection at ports of entry throughout this country. Once recorded, goods bearing the registered trademark, whether "genuine", a copy, or counterfeit, cannot be imported into the country without the trademark owner's consent. Instead of detecting and pursuing infringers in separate civil actions, an owner of a recorded registration can rely on Customs to stop such goods at the border. Thus, a multiplicity of lawsuits by the trademark owner to enforce its rights and stop any infringements, is avoided, significantly reducing the cost of enforcement and eliminating duplicative civil actions.

However, under the current regulation as authored by Customs, Yamaha is deprived of the benefits of a genuine goods exclusion order when recording its registered trademarks. Yamaha is thus precluded from receiving the full benefit of protection under the Tariff Act of 1930, 19 U.S.C. §§ 1202-1700 (1982) from "grey market" imports. As a result, Yamaha has instituted civil actions against importers and distributors of grey market goods to protect its trademark rights. Absent the demise of the Customs regulation, Yamaha's statutory trademark rights will continue to be violated, resulting in harm to consumers and to Yamaha's good will and reputation.

## SUMMARY OF ARGUMENT

The Customs regulation, 19 C.F.R. § 133.21 (1986), only exists to implement the Tariff Act of 1930, § 526, 19 U.S.C. § 1526 (1982) which is derived from the Lanham Trademark Act, 15 U.S.C. §§ 1051-1127 (1982). Yet, in this appeal the arguments on the validity issue of the regulation have focused primarily on the interpretation and legislative history of § 526 and the regulation. These arguments have inexplicably failed to consider the trademark genesis of § 526 and consequently, the impact of the Customs regulation on the substantive rights of domestic trademark registrants provided under the Lanham Act. However, when analyzed as

such, it is clear that this administrative regulation arbitrarily diminishes the substantive rights of many U.S. trademark registrants by (1) undermining the common law functions of trademarks, (2) permitting an invasion of registrants' statutory exclusive right of trademark use, (3) depriving registrants of substantive due process rights, and, (4) imposing compulsory and uncontrolled trademark licensing on registrants. In short, an administrative agency, Customs Service, has setup a regulation which is contrary to the trademark laws created by Congress and interpreted and enforced by the courts of the United States.

By contrast, the language of § 526 is in accordance with the Lanham Act and decades of precedent recognizing the right of American exclusive distributors to enforce trademarks. As a procedural trade statute, § 526 provides an efficient mechanism for protection of trademarks of domestic registrants against infringing imported goods. It does not impart substantive trademark rights nor conflict with the Lanham Act or other international reciprocity treaties. Further, the language of § 526 does not mandate a regulation to protect against anticompetitive situations. As the current regulation is out of step with trademark law, so is it out of step with this Court's antitrust precedent.

Viewing the Customs regulation from the perspective of the underlying trademark law, these *Amici* believe this Court will conclude that the regulation irreconcilably conflicts with modern trademark and antitrust law as well as the express language of § 526.

## ARGUMENT

### I. THE CUSTOMS SERVICE REGULATION DIMINISHES THE SUBSTANTIVE RIGHTS OF U.S. TRADEMARK REGISTRANTS

In defending the validity of the Customs regulation, Petitioners have ignored the substantive rights granted U.S. trademark registrants under modern statutory trademark



law. This appeal has become mired in a swamp of ambiguous legislative history and conflicting precedent concerning the interpretation of § 526 and the Customs regulation. However, when the emasculating affect of the Customs regulation on the rights of U.S. trademark registrants is considered, the invalidity of the regulation is apparent.

#### A. The Customs Service Regulation Undermines Common Law Trademark Functions

Considering the evolution of American trademark law, the Customs regulation is hopelessly irreconcilable with modern principles of such law. The foundation of American trademark law rests upon the proposition that a trademark symbolizes the good will of the product or service in connection with which the mark is employed. *McLean v. Fleming*, 96 U.S. 245 (1878). Though this fundamental proposition is unchanged, the commercial and legal perceptions of how trademarks function in the U.S. has gradually evolved during this century to meet the needs of consumers and trademark owners. For example, trademarks were once thought to represent to consumers only the source or origin of the product or service in connection with which the mark was used. 1 McCarthy, Trademarks and Unfair Competition § 3:3 (2nd ed. 1984). This strict "source" function of trademarks complemented the theory of trademark "universality" whereby goods manufactured abroad under a trademark and then imported and sold in the United States were held not to infringe the rights of the U.S. trademark owner. The belief was that because the goods originated from the same foreign source, the public could not be deceived. *Appolinaris Co., Ltd. v. Scherer*, 27 F. 18 (S.D.N.Y. 1886); *A. Bourjois & Co., Inc. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923). However, this Court rejected the theory of "universality" in 1923. *Id.* 260 U.S. at 692.

Evolving to meet commercial reality, the "source" function of trademarks was broadened, legislatively in 1962 and judicially, to mean that the consumer expected all goods

bearing the same mark to come from a single, albeit, anonymous or indistinguishable source. Trademark Act of 1962, § 45, Sec. 21, Pub.L.No. 87-772, 76 Stat. 769, 774 (15 U.S.C. § 1127, as amended (1962)); *Syntex Laboratories, Inc. v. The Norwich Pharmacal Company*, 437 F.2d 566 (2d Cir. 1971).[2] Therefore, in order to be confused, "a consumer need not believe that the owner of the mark actually produced the item it places on the market" since a trademark functions as an indicia of affiliation, sponsorship and approval. *Warner Bros., Inc. v. Gay Toys, Inc.*, 658 F.2d 76, 79 (2d Cir. 1981).

Despite the broadening of the "source" function, the Customs regulation which is based on the archaic trademark law, improperly denies certain domestic registrants such as Yamaha, the complete benefits of § 526. Arguing that consumers know that grey market goods are of foreign manufacture or are distributed by a U.S. company related to a foreign manufacturer, Petitioners assert "no confusion of source" exists as to such goods. Brief for Petitioner K mart Corp. at 38. This argument focuses on the archaic "source" function of trademarks ignoring modern, broader protection from confusion of any kind including affiliation, sponsorship and approval.

The Customs regulation also ignores other accepted trademark functions such as the "quality" or "guarantee" function. 1 McCarthy, Trademarks and Unfair Competition § 3:4 (2nd ed. 1984). Hence, a mark not only indicates a single anonymous source, but also serves as a badge of quality

[2] The *Syntex* court held that in amending the Trademark Act of 1962, 15 U.S.C. §§ 1051-1127 (1982), Congress evinced "a clear purpose to outlaw the use of trademarks which are likely to cause confusion, mistake or deception of any kind, not merely of purchasers nor simply as to source of origin." *Syntex*, 437 F.2d at 568.



representing a level of consistent quality of goods or services.[3] *Park'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 193 (1985) ("trademarks desirably promote competition and the maintenance of product quality."); *Federal Trade Commission v. Borden Co.*, 383 U.S. 637, 651 (1966) (Stewart & Harlan, JJ., dissenting) ("An important ingredient of the premium brand inheres in the consumer's belief, measured by past satisfaction and the market reputation established by Borden for its products, that tomorrow's can will contain the same premium product as that purchased today.")

These trademark functions of quality and source indication are vital tools for modern business industries such as authorized dealer networks and franchises. The Customs regulation creates havoc with these businesses by aiding and abetting the unauthorized use of trademarks on goods being distributed outside of an authorized distribution system. As a result, such goods are beyond the quality and warranty control of the trademark owner.

To avert this adverse impact on the quality function of trademarks, some importers of grey goods provide warranty services.[4] But in these instances, who is the single, albeit anonymous entity which assures that all grey marketers render the same, consistent quality of product support services? The answer is, quite simply, no one. This Court has recognized that "[S]ervice and repair are vital for many products, such as automobiles and major household appliances. The availability and quality of such services affect a manufacturer's goodwill and the competitiveness of his product." *Continental T.V. v. GTE Sylvania*, 433 U.S. at 55. Yet,

[3] The quality function of trademarks is codified by the Trademark Act of 1946, 15 U.S.C. § 1127 (definition of "related company").

[4] Some grey marketers may offer no warranty services. In *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 55 (1977), this Court observed that "[B]ecause of market imperfections such as the so called 'free rider' effect, these services might not be provided by retailers in a purely competitive situation. . . ."

the Customs regulation permits inconsistent and unpredictable levels of warranty and quality control, to the economic and legal detriment of the consumer and trademark owner.

In addition, the Customs regulation also impairs the important advertising element in promoting a merchant's goods and services. 1 McCarthy, Trademarks and Unfair Competition § 3:5 (2nd ed. 1984). Yamaha and its authorized dealers commit millions of dollars to promote products bearing registered "Yamaha" marks with the expectation that they alone will enjoy the resulting good will and economic gains from these expenditures. Such expenditures are incurred since trademarks function as a highly efficient means to create consumer demand and acceptance for the goods and services. *See Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 205 (1942). Yet, the Customs regulation bequeaths to grey marketers the good will of Yamaha and hands over the commercial magnetism symbolized by "Yamaha" trademarks. That grey marketers intend to poach upon the commercial magnetism is proven by the more than coincidental fact that grey marketing occurs regularly with famous trademarks such as "Yamaha" and those of other Respondents.

Hence, the Customs regulation is inconsistent with modern trademark law, failing to protect the dual interests of trademark owners and consumers as mandated by the courts and Congress. *Park'N Fly*, 469 U.S. at 198; S. Rep. No. 1333, 79th Cong., 2d Sess. 3, 5 (1946), *reprinted in* U.S. Code Cong. & Ad. News 1274.[5] The regulation inexplicably denies a certain class of domestic registrants including Yamaha, the

[5] Congress has explained that of the two bases of trademark protection, ". . . one is to protect the public so that it may be confident that, in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trademark has spent energy, time and money in presenting to the public the products, he is protected in his investment for its misappropriation by pirates and cheats. This is the well-

*(footnote continued on next page)*



procedural protections of § 526 and substantive rights of 15 U.S.C. § 1057(b). This denial is premised on an arbitrarily defined degree of ownership or relationship between the domestic trademark registrant and a foreign entity or, that the goods are made overseas where the mark is applied to the goods with permission of the U.S. trademark owner.[6] If the Customs regulation denies § 526 protection to such select domestic registrants[7] then the regulation directly conflicts with substantive trademark law by failing to consider the quality and advertising functions of trademarks. Such denial of § 526 protection thereby permits widespread grey marketing, with the Customs regulation laying the good will of and investment in the U.S. trademark owners' marks open to the unauthorized use of others, further exposing the consumer to confusion and quality problems. Thus, select domestic registrants, like Yamaha, incur the expense and

*(footnote continued from preceding page)*

established rule of law protecting both the public and the trademark owner." *Id.* S. Rep. No. 1333, 2d Sess. 3, 5 (1946).

[6] Several Petitioners, such as K mart Corporation, refer to the goods as being "trademarked" by a foreign source. This term is misleading because it connotes the birth of protectable trademark rights by mere affixation of the mark to the goods. However, it is clear at both common law and under the U.S. Trademark Act that protectable trademark rights do not arise until the mark is used in U.S. commerce by an authorized entity. 15 U.S.C. § 1127 (definition of "trademark" and "use in commerce"). Moreover, it ignores the fact that any rights the purchaser obtains are limited to those granted under the laws of the country where the transaction occurs.

[7] No Petitioner has or can explain the dichotomy which exists under the current Customs regulation where confusion of source is assumed to exist for domestic trademark registrants qualifying for § 526 protection, while confusion of source is assumed not to exist for other domestic trademark owners denied § 526 protection. This paradox illustrates that there is no legal justification for the Customs regulation.

exert the effort but, receive no protection under or benefit from § 526.

### B. The Customs Service Regulation Profoundly Diminishes the Exclusive Right of Use Accorded Domestic Trademark Registrants Under the Lanham Act

Because of its irreconcilable conflict with trademark law, the Customs regulation inevitably results in a deprivation of substantive statutory rights granted to Yamaha as a trademark registrant under the Lanham Act. Specifically, Yamaha, as a registrant, is deprived of its "exclusive right to use the mark in commerce in connection with the goods and services specified in the Certificate of Registration." 15 U.S.C. §§ 1057(b), 1115(b). The Customs regulation deprives many trademark registrants of the most cherished substantive right evidenced by a federal registration issued under the Lanham Act, the exclusive right of use.

By denying the complete benefits of § 526 protection to certain domestic U.S. trademark registrants, the Customs Service places its imprimatur on grey market goods. The introduction of these goods into commerce and the use of the trademark to sell the goods without the domestic registrant's consent, undeniably invades the exclusive right of use recognized by the Lanham Act. The value of the trademark to the U.S. trademark registrant clearly becomes diminished since the trademark registrant is unable to control the use of its mark or quality or servicing of goods in the grey market.[8]

The importance of the "exclusive right of use" was emphasized by this Court's pronouncement that unless an incontestable registration could be asserted to enjoin infringement by others, the "exclusive right", recognized by the

[8] Loss of control may lead to a registrant's loss of its statutory right to exclusive use of the mark on the ground of abandonment. 15 U.S.C. § 1064(c) (cancellation of registration on the ground of abandonment); 15 U.S.C. § 1127 (definition of "abandonment of mark").



Lanham Act, would be rendered meaningless.[9] *Park'N Fly*, 469 U.S. at 196. Under the Lanham Act, the invasion of the exclusive right of use triggers a registrant's immediate right to injunctive relief "to prevent the violation of any right of the registrant of the mark registered in the Patent and Trademark Office." 15 U.S.C. § 1116; *See also St. Charles Mfg. Co. v. St. Charles Furniture Corp.*, 482 F.Supp. 397 (N.D.Ill. 1979).

The enforcement of a registrant's exclusive right to use a trademark or service mark promotes the Lanham Act goals of providing "national protection of trademarks in order to secure to the owner of the mark the goodwill of his business and to protect the ability of consumers to distinguish among competing producers." *Park'N Fly*, 469 U.S. at 198 (citing S. Rep. 1333, 2d Sess. 3, 5 (1946)). By sanctioning, carte blanche, an invasion of the statutory exclusive right of use, the Customs regulation is contrary to and frustrates the legislative goals of the Lanham Act at a time when effective protection of American intellectual property against unfair foreign trade is critical to the survival of American businesses and jobs.

Petitioners attempt to justify the invasion of the exclusive right of use on the ground that the regulation assumes (without provision for factual investigation), that domestic trademark registrants having a certain degree of foreign ownership, have not developed independent good will in the United States apart from any commercial recognition or good will which the mark may symbolize elsewhere in the

[9] Registration of a mark on the Principal Register is *prima facie* evidence of a registrant's ownership, the validity of the registration and of the exclusive right of the registrant to use the mark in commerce in connection with the goods specified in the Certificate of Registration. 15 U.S.C. § 1057(b). After 5 years on the Principal Register, the registration assumes the status of incontestability and becomes "conclusive evidence" of the registrant's exclusive right to use the mark. 15 U.S.C. §§ 1065, 1115(b).

world. This argument is contrary to the *prima facie* presumptions of validity and ownership which are accorded all U.S. trademark registrations. The statutory presumptions of ownership and validity carry with them the assumption that good will exists and is appurtenant to the mark because by definition, a trademark is a symbol of good will and can have no existence apart from the good will which it represents. *McLean*, 96 U.S. at 252; *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918); 15 U.S.C. § 1057(b). When a registration is granted, it is presumed by statute, that the registrant holds good will in the registered mark. Certainly, no administrative agency, including the U.S. Customs Service, can promulgate a regulation without opportunity for a fair hearing, depriving U.S. citizens of statutorily recognized rights and evidentiary presumptions.

### C. Enforcement of the Customs Service Regulation Deprives Many U.S. Registrants of Substantive Due Process Rights

By refusing to grant Yamaha and other foreign-owned U.S. companies a grey goods exclusion order, the Customs Service, through its regulation, is destroying a key property right held by such trademark owners. As discussed, under the Lanham Act, a federal trademark registration recognizes valuable rights, the most important of which is the right to the exclusive use of the trademark. 15 U.S.C. 1057(b); 1115(b). It is in this sense of "exclusive right" that trademarks can be categorized as a form of "property". *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*, 240 U.S. 251 (1916). Moreover, there is no doubt that good will, together with its symbol—the trademark—are legally classified as "property". *Old Dearborn Distributing Co. v. Seagram-Distillers Corp.*, 299 U.S. 183, 194-195 (1936).

Customs' adherence to its regulation and refusal to issue genuine grey goods exclusion orders to domestic registrants who are foreign-owned deprives these trademark owners of incidents of ownership which impart significant value to



their trademark property. The impairment of the registrants' statutory exclusive right to use their trademarks so diminishes the trademarks' values so as to amount to a "taking" of the registrants' property without just compensation in violation of the registrants' Fifth Amendment rights. *Cf. Johnson & Johnson, Inc. v. Wallace A. Erickson & Co.*, 627 F.2d 57, 59 (7th Cir. 1980).[10] This Court recognized long ago, that as a general rule, "[w]hile property may be regulated to a certain extent, if the regulation goes too far it will be recognized as a taking." *Pennsylvania Coal Co. v. Mahon*, 260 U.S. 393, 415 (1922).

Customs enforcement of its regulation amounts to nothing less than the "taking" of a U.S. trademark registrant's statutory property without just compensation. Moreover, the government's encroachment on the statutory rights of a tradmark owner does not constitute a reasonable exercise of police power for a legitimate "public use". In this regard, it is noteworthy that the regulation was not intended to protect the public's safety or to otherwise protect the public's interest. Rather, the regulation merely serves to secure and increase the monetary profits of a few grey market enterprises. Customs' enforcement of its regulation amounts to an illegal "taking" of trademark rights which unjustly deprives some U.S. registrants of due process of law.

### D. The Customs Service Regulation Imposes Compulsory and Uncontrolled Trademark Licensing on a Substantial Class of Domestic Trademark Registrants

For the substantial class of domestic trademark registrants who cannot qualify under the Customs regulation for complete § 526 protection, the U.S. Customs Service grants to grey marketers the right to use a domestic registrant's mark to import, advertise and sell the goods in the United States

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[10] In this case, the Seventh Circuit found that a patentee cannot be deprived of his property in the patent right of exclusion without due process of law.

without the registrant's consent. Because of the discrimination inherent in the regulation, the Customs regulation amounts to compulsory, royalty-free licensing of the U.S. trademarks owned by domestic registrants not qualifying for § 526 protection.

Compulsory trademark licensing is an extremely punitive remedy and only considered where it has been shown that a trademark has been used contrary to competitive and consumer interests. 1A Callmann, Unfair Competition, Trademarks and Monopoly § 4.53 (4th ed. 1981).[11] There is no evidence that either the U.S. Customs Service or any court, department or administrative agency has ever conducted an investigation or issued administrative or judicial findings which would justify exacting from certain domestic trademark registrants the highly punitive remedy of compulsory, royalty-free trademark licensing.

In addition to the fact that the Customs regulation is tantamount to compulsory licensing, it is also "naked" licensing of the various trademarks of those domestic trademark registrants which do not qualify for § 526 protection. Naked licensing results when a trademark registrant fails to exercise sufficient quality control over the goods and services being offered in connection with the trademark by a licensee. 1 McCarthy, Trademarks and Unfair Competition § 18:14 (2nd ed. 1984). Naked licensing both deceives the public, which expects the same level of quality from all goods or services bearing a particular mark, and prevents the trademark owner from controlling both the quality of the goods, the use of his trademark and his business reputation which is intimately linked with the trademark. Naked or uncontrolled trademark licensing can lead to abandonment of

[11] *E.g.*, The Federal Trade Commission requested compulsory royalty-free trademark licensing in the FTC Realemon case, *In re Borden, Inc.*, Docket No. 8978, 891 ATRR, E-1 (1978); *See also* Note, *Abuse of Trademarks: A Proposal for Compulsory Licensing*, 7 U. Mich. J.L. Ref. 644 (1974).



trademark rights as the mark may ultimately lose its significance as an indication of source and quality. See 15 U.S.C. § 1127 (definition "abandonment of mark"); *Midwest Fur Producers Assn. v. Mutation Mink Breeders Assn.*, 127 F.Supp. 217 (W.D.Wis. 1955) (naked licensing held, resulting in abandonment and estoppel to assert trademark rights).

When the Customs Service permits the passage of grey market goods through the Customhouses without consent of Yamaha and other domestic trademark registrants, such registrants have lost their right to control the use of their marks and their reputations. *Cf. Dallas Cowboy Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 205 (2d Cir. 1979). The regulation thus frustrates another of the statutory goals of the Lanham Act, the ability of a trademark owner to control the good will of his business and the product quality symbolized by the trademark, as well as protecting the ability of consumers to rely on a trademark as a badge of product quality. *See Park'N Fly*, 469 U.S. at 198; S. Rep. No. 1333, 2d Sess. 3, 5 (1946).

To defend the Customs regulation and the grey marketing it promotes, it has been urged that a grey marketer may invade a U.S. registrant's exclusivity because this is consistent with the implied trademark license which a grey marketer allegedly acquires by purchase of the goods from a foreign source. This argument clearly relies on the archaic "exhaustion" concept of international trade which suggested that once a foregin trademark owner placed his goods bearing the mark into international commerce, an assignee in another country could not locally own or assert trademark rights superior to those of the foreign owner. *Osawa & Co. v. B & H Photo*, 589 F.Supp. 1163, 1174 (S.D.N.Y. 1984). However, the concept of exhaustion was inextricably linked with the theory of trademark universality which this Court rejected in favor of trademark territoriality. *A. Bourjois & Co. v. Kaztel*, 260 U.S. at 692. Where a trademark owner in a different territory has acquired, or by law possesses, an independent good will as symbolized by the trademark, the

exhaustion concept is of no relevance. *See* Derenberg, *Territorial Scope and Situs of Trademarks and Good Will*, 47 Va. L. Rev. 733, 736-37 (1961) (establishment by domestic mark holder of localized good will justifies trademark protection against grey market imports).

As noted above, a domestic owner of a U.S. trademark registration possesses a *prima facie* presumption under the Lanham Act that the registered mark possesses good will. The Customs regulation denegrates this statutory presumption and imposes a contrary presumption that domestic trademark registrants who do not qualify for § 526 protection do not possess independent good will in the United States.

## II. SECTION 526 OF THE TARIFF ACT IS CONSISTENT WITH AND NECESSARY TO PROTECT THE RIGHTS GRANTED TO U.S. REGISTRANTS UNDER THE LANHAM ACT

Section 526 and the Customs regulation must not be considered in a vacuum as Petitioners advocate. While § 526 is commonly understood to be a customs or trade regulation statute, application and understanding of this statute cannot be undertaken without considering the manner in which it interfaces with trademark law. The language and history of both § 526 and the Lanham Act confirm that § 526 of the Tariff Act simply provides an additional remedy to a registered trademark owner as a further means of enforcing its statutorily recognized right of exclusivity of use under the Lanham Act. Section 526, on its face, grants protection to U.S. owners of registered trademarks without limitation. By availing themselves of § 526, owners of U.S. registrations should be able to secure certain procedural benefits to enhance the protection of their registered trademarks. However, the Customs regulation arbitrarily interferes with the enjoyment of these statutorily-granted procedural benefits.

Petitioners' position that U.S. distributors and trademark registrants of foreign-made products such as Yamaha, are



not entitled to the procedural benefits of § 526 of the Tariff Act is totally contrary to a long line of distinguished trademark cases. For more than 40 years, courts have recognized the exclusive rights of American distributors and permitted trademark infringement suits to be maintained by exclusive distributors and sellers of trademarked goods who had a right by agreement with the owner of the trademark to exclude even the owner from selling in their territory.[12]

Thus, it is settled law that a trademark may not only signify the good will of a manufacturer, but may also signify the independent good will of the exclusive distributor who imports foreign-made goods and stands behind the goods sold by it. Most importantly, these decisions permit U.S. distributors to maintain infringement actions regardless of the foreign ownership of the distributors. The statutory interpretation of § 526 espoused by Petitioners conveniently ignores the trademark heritage of this section and disregards accepted case law demonstrating the invalidity of the regulation.

A plain reading of § 526 consistent with fundamental modern trademark law manifests the intention of this section to include all U.S. registrants who are citizens of and domiciliaries in the United States regardless of who their stockholders are and/or what relationship they have with foreign users of identical marks. Neither the legislative reports nor the congressional debate contain any clear evidence of a legislative intent to deny trademark protection where the owner of the U.S. mark is owned or controlled by the foreign manufacturer of trademarked goods.

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[12] *See Quabaug Rubber Co. v. Fabiano Shoe Co., Inc.*, 567 F.2d 154, 159-160 (1st Cir. 1977); *Watson v. E. Leitz, Inc.*, 254 F.2d 777, 780 (D.C. Cir. 1958); *Avedis Zildjian Co. v. Fred Gretsch Mfg. Co.*, 251 F.2d 530, 532 (2d Cir. 1958); *Georg Jensen & Wendel, A/S v. Georg Jensen Handmade Silver, Inc.*, 111 F.2d 169, 172 (C.C.P.A. 1940); and *Osawa v. B & H Photo*, 589 F.Supp. at 1179.

Petitioners ask this Court to ignore the express language of § 526, which has remained unchanged by Congress for over 60 years, in lieu of their own interpretation of the sketchy and confused legislative history of this section. Petitioners, the Customs Service and this Court, should not attempt to legislate where Congress has had the opportunity but has clearly chosen ~~not to do~~ so. Accordingly, these *Amici*, urge the Court to reject Petitioners' spurious statutory interpretation of § 526, on which they premise their defense of the Customs regulation, and reaffirm the plain language of the statute in view of its consistency with established trademark law and thereby invalidate the regulation.

### A. Absent the Customs Service Regulation, Section 526 Provides an Efficient and Crucial Means for Protection of a U.S. Registrant's Trademark Rights

As stated above, the procedure set forth in § 526 provides one of the most efficient means of protection for a U.S. trademark owner. Rather than promote the effectiveness of the recording procedure of § 526, the Customs regulation undermines the procedural benefits of the statute. By not being able to record its trademark at Customs to receive protection from imported grey goods, the trademark owner is unable to avail itself of the vast resources of the Customs Service and guard against the unauthorized importation of any infringing products. No comparable alternate means exists for an individual trademark owner to police and control the importation and sale of infringing goods in this country.

If the U.S. trademark owner cannot stop shipments of infringing goods from the foreign source of such goods via an exclusion order, it is faced with an endless pursuit of separate infringers in the distribution chain, while infringing goods continue to pour into the country. Thus, the trademark owner is unable to effectively combat the actual cause of its infringement problems. Under the current regulation, Yamaha is unable to avail itself of the full benefits of § 526



protection against grey imports and is thereby denied enjoyment of the meaningful protection of its trademark rights intended by the Tariff Act and the Trademark Act.

### B. The Statutory Preference to Domestic Registrants Under § 526 Serves a Legitimate Purpose

Unlike the provisions of the Lanham Act, § 526 does not extend its procedural advantages to foreign entities. Contrary to the view of the Federal Petitioners, § 526 does not impart any additional substantive trademark rights on its beneficiaries, and therefore is not inconsistent with § 44(b) of the Lanham Act, 15 U.S.C. 1126(b) (1982), or with relevant international treaties which require reciprocity of rights. Brief for the Federal Petitioners at 10. *See* Paris Convention for the Protection of Intellectual Property, March 20, 1883, as revised, Art. 2, 21 U.S.T. 2140, T.I.A.S. No. 6923.

As a Customs and trade regulation statute, § 526 was intended to protect American trade and domestic businesses. This is a lawful and legitimate purpose which is also the basis for similar procedural benefits accorded to U.S. owners of other intellectual property.[13] Contrary to Petitioners' belief, this purpose is not defeated by enabling legitimate domestic trademark registrants, whether partly or wholly foreign owned, to enjoy the procedural benefits of the statute. A company like Yamaha, which is incorporated in one of the 50 states, maintains a place of business in the U.S., employs U.S. citizens and pays U.S., State and local taxes, is no less of an "American" company because its capital stock is foreign owned. In fact, in defining a "domestic industry" in investigations conducted under the Tariff Act of 1930, § 337, the

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[13] Under the Copyright Act, 17 U.S.C. §§ 601-603 (1982), only a U.S. national or domiciliary can exclude the importation of certain copyrighted works while under the Tariff Act of 1930, § 337, 19 U.S.C. § 1337, merchandise may be excluded by the International Trade Commission if it finds the existence of unfair practices or unfair methods of competition causing injury to a domestic industry.

International Trade Commission often includes domestically formed entities which may be partly or wholly, foreign owned. *Certain Airtight Cast-Iron Stoves*, No. 337-TA-69, 215 U.S.P.Q. 963 (U.S. ITC 1980).

Without offer of factual support, Petitioners would have this Court accept the "negative" assumption of the Customs regulation that every domestic company with foreign ownership or manufacturing plants is not an "American" company deserving of the procedural benefits of § 526. This assumption is not only at odds with decades of case law recognizing the separate existence of a corporation from its owner(s)[14], but it is totally contrary to recent decisions where courts considering this question have found a foreign-owned domestic company to constitute a legitimate American business. *See Bell & Howell:Mamiya Co. v. Masel Supply Co.*, 548 F.Supp. 1063, 1079 (E.D.N.Y. 1982), *vacated and remanded*, 719 F.2d 42 (2d Cir. 1983); *Osawa v. B & H Photo*, 589 F.Supp. at 1165.

So long as an ongoing business is established in the United States, the purpose of § 526 is fulfilled and, the equity ownership of the business is irrelevant. For example, Yamaha maintains an established place of business in the U.S., spends thousands of dollars on advertising and promoting its trademarked products and services, provides warranty services and sells products in the U.S. and carries on all other activities engaged in by other American companies. U.S. subsidiaries of foreign manufacturers which were set up for legitimate business reasons, such as distribution, promotion,

[14] By assuming that foreign-owned domestic companies are not legitimate American businesses, Petitioners attempt to unjustifiably pierce the corporate veil and deem the domestic companies to be the alter egos of their foreign owners. This piercing is unwarranted without a showing that the domestic companies were created for some deceitful purpose. Petitioners' gross mischaracterization of these domestic businesses as corporate shells is equally unwarranted. There is no evidence supporting or legal basis justifying Petitioners' assumptions.



and servicing of trademarked products clearly fall within the literal scope of § 526.

Moreover, there is no administrative rationale for the "negative" assumption against foreign owned registrants embodied in the Customs regulation. Petitioners speculate that in the absence of the regulation foreign companies will fraudulently apply for and receive grey goods exclusion orders pursuant to § 526. However, these concerns can easily be allayed by employing similar safeguards to those which have long been commonly used by administrative agencies. Various administrative agencies have effectively utilized and accepted sworn affidavits and/or declarations under the penalty of perjury to support statements of fact submitted for government action.[15] *See, e.g.*, administrative declarations under 18 U.S.C. § 1001 (1982).

Hence, there is no procedural justification for the Customs regulation. Employing standard administrative safeguards would allow all legitimate U.S. companies to record their trademarks with Customs, but not foreclose a challenge to the domesticity of a U.S. registrant when it seeks to enforce its rights under § 526. Interested third parties would be free to file a protest with Customs or raise the issue as a defense in a suit between the parties. Under a literal interpretation of § 526, certain U.S. registrants would not be forced to bear the burden of being precluded from obtaining relief from grey imports. Instead, the burden would be shifted to the challenger as it should be in deference to the statutory rights of exclusivity accorded to trademark owners.

[15] For example, in its administration of a bi-level fee schedule, the Patent and Trademark Office relies on verified statements made by the patent applicant concerning its size of employment. 37 C.F.R. § 1.27 (1984). On a larger scale, the IRS routinely accepts tax returns signed by the taxpayer under the penalty of perjury. Utilizing a similar procedure, Customs could carry out the provisions of § 526 by requiring registrants to submit sworn statements verifying their domicile and citizenship.

### C. The Antitrust Enforcement Rationale for the Customs Service Regulation Has No Justification In Section 526

There is no justification for the Customs regulation as an enforcement tool of U.S. antitrust law and policy. Enforcement of § 526 in accordance with its express language, is in harmony with antitrust law as articulated in *Continental T.V. v. GTE Sylvania*, 433 U.S. 36 (1977).[16] Petitioners' reliance on *United States v. Guerlain, Inc.*, 155 F.Supp. 77 (S.D.N.Y. 1957), in support of their argument that a literal reading of § 526 fosters anticompetitive practices is misplaced. The precedential value of *Guerlain* is minimal to non-existent in view of its vacatur and its dismissal with prejudice. The apparent reasoning behind the *Guerlain* court's construction of § 526 as limited to "independent" distributors was based on its view of the merits of the antitrust claims.

Under current antitrust law, the *Guerlain* court's definition of the relevant market is fatally flawed. Indeed, a key legal premise in *Guerlain*, that the relevant market consisted only of the trademarked goods, has been discredited by this Court. See, e.g., *United States v. E.I. du Pont de Nemours & Co.*, 351 U.S. 377, 393 (1956). Moreover, as noted by the government in its *amicus curiae* brief submitted to the Second Circuit in connection with *Bell & Howell v. Masel*, the *Guerlain* court's analysis is inconsistent with current legal precedent and sound economic analysis.[17] Citing this Court's decision in

[16] Petitioners urge this Court to recognize a different and discriminatory rule as to antitrust policy when the trademark owner is a foreign-owned company than when the trademark owner is an "independent" American trademark owner. They contend that enforcement of § 526 is acceptable for competitive purposes if the registrant has no direct or indirect foreign ownership, but would violate antitrust policy if the same registrant has any foreign ownership.

[17] The first § 526 regulation which Customs promulgated was an attempt to implement its perception of antitrust policy which was undoubtedly influenced by the rationale of the Justice Department in bringing the *Guerlain* action. *See*

*(footnote continued on next page)*



*International Boxing Club of New York v. United States*, 358 U.S. 242, 251 (1959) and Sullivan, Antitrust 51 (1977), the government also explained that properly defined, a trademarked good is in a market of its own only where a supra-competitive price for that good would not cause consumers to move to other goods. The government further stated that it may not be presumed that every trademark confers such power over price. "That is a matter to be determined on the basis of the competitive reality relevant to each product." Brief for the United States of America *Amicus Curiae* at 16. *See* Joint Appendix as filed with the U.S. Court of Appeals for the D.C. Circuit at 321-342. The opinion of the district court in *Guerlain*, which adopted the same theory as the Customs regulation, has also been seriously criticized. See *Osawa v. B & H Photo*, 589 F.Supp. at 1177; *Bell & Howell v. Masel*, 548 F.Supp. at 1077 and Handler, *Trademark—Assets or Liabilities*, 48 Trade-Mark Rep. 661 (1958).

While Petitioners contend that Respondents' interpretation of the trademark laws and § 526 fosters anticompetitive practices, discriminatory pricing and violations of antitrust law and policy, they fail to produce a single shred of evidence or economic data to support this contention. Petitioners also speculate, without any economic justification or evidentiary support, that a literal interpretation of § 526 will harm consumers economically. However, the remote possibility of price savings to consumers must not in and of itself override the statutory rights guaranteed to trademark registrants under the Lanham Act. The economic rationale underlying *Continental T.V. v. GTE Sylvania* is that companies such as authorized U.S. distributors and their authorized dealers will be willing to make expenditures necessary to

*(footnote continued from preceding page)*

Atwood, *Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs*, 59 Trade-Mark Rep. 301 (1969). Nothing in § 526 or its legislative history even hints that Congress intended to confer authority on Customs to condition the benefits of § 526 on its analysis of antitrust policy.

make themselves strong competitors in the overall marketplace if they are protected from intrabrand competition. Without their trademark assets, U.S. distributors would not make the investments necessary to become important factors in the United States market. Yet, it is standard economic theory that the absence of a viable competitor, such as the U.S. distributors, might well decrease price competition in the long run to the detriment of consumers.

Moreover, there are numerous explanations why grey marketers can sell goods cheaper than the exclusive U.S. distributor, such as fluctuations in international currency rates, differing costs and market conditions in other countries, maintenance of dealer networks and education programs, warranty services, advertising and other public relations costs. *Osawa v. B & H Photo*, 589 F.Supp. at 1176. These expenses are incurred in connection with the maintenance and enhancement of the good will and reputation which a trademark symbolizes. *Continental T.V. v. GTE Sylvania*, 433 U.S. at 55. Such activities when undertaken by the U.S. distributor create and maintain consumers' desire for products bearing the trademark. Indeed, if consumers' desire for the trademarked merchandise was not perpetuated by the U.S. distributors/trademark owners, grey marketers would have no interest in selling the products. Petitioners' argument that arbitrary price discrimination is practiced by foreign manufacturers to unjustifiably increase the cost of trademarked goods to U.S. consumers is merely an attempt to divert attention from the free-ride taken by grey marketers on the good will and recognition built in the trademark by the U.S. owner.

Even assuming that practices of some foreign manufacturers are found to violate the antitrust laws, other remedies exist which do not detract from the statutory rights accorded to trademark owners. For instance, should antitrust violations be shown, a proper remedy would be the denial of enforcement of the trademark registration or imposition of liability for violation of the antitrust laws. *See, e.g.*, 15 U.S.C.



§ 1115(b)(7) (use of a trademark to violate antitrust laws is a defense to an incontestable trademark registration).

Furthermore, the effectiveness of the Customs regulation as an antitrust enforcement tool is highly suspect. Antitrust questions are much too complex to be fairly decided solely by reference to a short statement regarding corporate ownership required under the Customs regulation. Customs' determinations on this basis take no account, for example, of whether the similarly marked goods in fact compete with one another or if so, what is the definition of the relevant market in which they compete.[18] The Customs regulation automatically presumes antitrust violations, without any consideration of market conditions, from the sole fact of common control of foreign and domestic trademark owners. Moreover, in view of the remedial alternatives which are available[19] the regulation should not be allowed to stand and preempt the statutory trademark rights of U.S. registrants.

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[18] It is also curious that the regulation denying exclusion of genuine-foreign-trademarked goods based on the relationship between the U.S. and foreign markholders denies exclusion of imports bearing counterfeit trademarks on the same basis. What principle of antitrust law could possibly be served by withholding the exclusion of counterfeits by reason of relationships between the domestic and foreign markholders? Noteworthy is that § 42 of the Lanham Act, unlike § 526, extends protection to foreign holders of U.S. marks (under certain circumstances) as well as to U.S. citizens and corporations. *Osawa v. B & H Photo*, 589 F.Supp. at 1177.

[19] Such alternatives include civil actions to challenge the propriety of the issuance of the exclusion order based on antitrust violations, trebled damages actions, suits for unfair competition and defenses to infringement actions. See *Timken Roller Bearing Co. v. United States*, 341 U.S. 593, 598-99 (1951); *Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena*, 298 F.Supp. 1309, 1314 (S.D.N.Y. 1969), *aff'd as modified*, 433 F.2d 686 (2d Cir. 1970), *cert. denied*, 403 U.S. 905 (1971); and 15 U.S.C. § 1115(b)(7).

## III. THE CUSTOMS SERVICE REGULATION ADVERSELY IMPACTS ON BOTH YAMAHA AND CONSUMERS AND IS AGAINST PUBLIC POLICY

The Customs regulation has a decidedly adverse impact on Yamaha and purchasers of grey market sound equipment. In defense of the regulation, all Petitioners make two erroneous assumptions: (1) that goods bearing marks identical to the registered U.S. marks are the same throughout the world and, (2) that the trademark affixed to grey goods has the same meaning to consumers, in fact and law, throughout the world.[20] From these erroneous assumptions, Petitioners conclude that the regulation is valid because through grey marketing, consumers are receiving the same goods bearing the same mark at allegedly lower prices. Both assumptions, are completely unsupported by both fact and law.

Yamaha strenuously disputes the assumption that all goods manufactured or distributed by all trademark registrants are the same throughout the world. Brief for Petitioner 47th Street Photo at 2. Because of the myriad federal and safety regulations governing the products sold by Yamaha in the U.S., as a matter of law, products bearing the "Yamaha" trademarks and intended for overseas distribution are "different because of the regulations." For example, FCC regulations specifically require products sold by Yamaha to meet certain technical specifications, bear proper labelling and to include FCC information in the owner's manual. Compact disc players sold by Yamaha are subject to FDA regulations due to the laser contained in the player. 21 C.F.R. §§ 1000, 1040 (1984). Additionally, products not intended for the U.S. market do not carry Underwriters Laboratories, Inc. (U.L.) warnings pursuant to U.L. Regulation 469. Equipment intended for overseas markets may not be able to handle the standard electrical current found in the

[20] For example, Petitioners K mart and 47th Street Photo preoccupy themselves with trademark law from Japan and the European Economic Community. Brief for Petitioner K mart at 44; Brief for Petitioner 47th Street Photo at 40, 42.



U.S. As a result of the foregoing, grey market sound equipment drawn from overseas commerce, is distinctly different than that intended for the U.S. market notwithstanding the fact that it bears an identical mark.

In addition to the legally required differences between U.S. sound equipment and grey market equipment, there are other differences between the equipment mandated by the needs and product uses in overseas markets. For example, accessories and owners manuals differ from country to country. An owner's manual in a foreign language is of little use or benefit to a U.S. consumer.

Warranties represent another aspect of the differences between genuine and grey market equipment. Warranties and the accompanying services are not the same for equipment sold in the U.S. and other parts of the world. A U.S. consumer who purchases sound equipment intended for a foreign market expects the equipment to meet U.S. standards and that his warranty will be the same as authorized equipment because the grey market equipment bears a trademark identical to the registered U.S. trademark. However, grey market goods are often sold with no warranty. Consumers frequently become confused as to why their warranty is not the same as the warranty on authorized equipment since they look to the trademarks as badges of quality and fully expect the U.S. trademark owner to stand behind the quality of the goods. Thus, the assumption that all grey market goods are the same as goods intended for sale in the U.S. is erroneous.

The second erroneous assumption raised by Petitioners in support of the Customs regulation is that trademarks affixed to grey market goods possess the same meaning to consumers as the U.S. registered marks. It is undisputed that the bundle of substantive rights accorded trademark owners vastly differs throughout the world as a matter of sovereign

law.[21] For example, in many countries outside the United States, enforceable trademark rights are born merely through registration without regard to actual use of the mark on any goods or services. Because the nature and degree of trademark protection varies throughout the world, a trademark applied to sound equipment outside the United States may have a completely different legal function and significance than does the same mark when applied to goods in U.S. commerce.

Likewise, because the nature and quality of the goods, warranty services and advertising varies with each country based on market needs and economic and competitive considerations, trademarks necessarily take on different meanings for consumers in various countries. Thus, because consumers throughout the world have different understandings as to the kinds of goods, services and advertising symbolized by a particular trademark, it is thoroughly erroneous to assume that famous trademarks such as "Yamaha" have the same meaning to European consumers as does that same mark to U.S. consumers.

Lastly, grey market sales frustrate and interfere with the fundamental basis for the franchise system. It is difficult to explain to an authorized dealer why he must or should compete with an unauthorized dealer who utilizes the famous trademarks in the sale of grey market goods. The existence of grey market goods deters capital investment and dealer participation, and interrupts orderly distribution of goods and services under the trademark. It is only the famous brand name of Yamaha that enables the grey market dealer to effectively sell his products. Yet, it is Yamaha, the

[21] *See* Paris Convention for the Protection of Intellectual Property, March 20, 1883, as revised, Art. 6, 21 U.S.T. 2140, T.I.A.S. No. 6923 (authorizing territorial assignments of trademark rights subject to national law); General Inter-American Convention for Trade-Mark and Commercial Protection, Feb. 20, 1929, Art. 11 (authorizing territorial transfers given reliable proof, subject to national law of transfer and registration).



trademark owner that has devoted the time and expense of creating and maintaining U.S. consumers' desire for its products.

Unauthorized grey market dealers have no incentive to protect the good will of the trademark. The marketing goal of grey marketers is to sell only famous brand goods solely on the basis of price in order to reap a profit for themselves. The commercial magnetism of Yamaha's trademarks allows the grey marketers to sell grey goods with little or no investment of their own. In this manner, the grey market dealers take a free ride on the advertising, servicing and good will associated with the trademarks while contributing nothing. Thus, the value of Yamaha's trademarks are materially diminished and could ultimately be destroyed. Under the express language of the Tariff Act and without the regulation, the quality and flow of goods under Yamaha's registered trademarks could be properly monitored to avoid consumer confusion and deception, thereby promoting the welfare and investment of Yamaha and its authorized dealers.

## CONCLUSION

The judgment of the Court of Appeals should be affirmed in its entirety.

Respectfully submitted,

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# AMICUS CURIAE

# BRIEF

19 19 18

Nos. 86-495, 86-624, and 86-625



IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

K MART CORPORATION,
*Petitioner,*

v.

CARTIER, INC., *et al.*

47TH STREET PHOTO, INC.,
*Petitioner,*

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

UNITED STATES OF AMERICA, *et al.*,
*Petitioners,*

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

## BRIEF FOR AMICUS CURIAE THE MOTOR VEHICLE MANUFACTURERS ASSOCIATION OF THE UNITED STATES, INC.

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26 pp

## TABLE OF CONTENTS

## TABLE OF AUTHORITIES

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

Nos. 86-495, 86-624, and 86-625

K MART CORPORATION,
*Petitioner,*

v.

CARTIER, INC., *et al.*

47TH STREET PHOTO, INC.,
*Petitioner,*

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

UNITED STATES OF AMERICA, *et al.*,
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**BRIEF FOR AMICUS CURIAE THE MOTOR VEHICLE MANUFACTURERS ASSOCIATION OF THE UNITED STATES, INC. IN SUPPORT OF THE POSITION OF RESPONDENTS**

## INTEREST OF AMICUS CURIAE

The Motor Vehicle Manufacturers Association of the United States, Inc. (MVMA) is a voluntary, non-profit association composed of companies engaged in the manufacture and sale of motor vehicles in the United States.[1] MVMA's eleven members assemble more than 98% of the cars, trucks and buses produced in the United States, operate more than 300 manufacturing facilities and franchise over 20,000 retail dealers of their vehicles in this country. MVMA submits this brief in support of the Respondents' position. Pursuant to Supreme Court Rule 36.2, the written consent of the parties accompanies this brief.

MVMA members' familiar trademarks, such as FORD, GENERAL MOTORS, CHRYSLER and JEEP, originated in the U.S. and are among the most readily recognized marks worldwide. As trademark owners, MVMA members have a direct and vital interest in the resolution of the principal issue before this Court: the validity of the U.S. Customs Service regulation permitting the importation of certain so-called "grey market goods".

Motor vehicles are among the most complex, costly, essential durable consumer goods and represent the second largest purchase of most consumers. It is well recognized that the motor vehicle industry is highly regulated. Federal and state governments place extensive responsiblity for the safety and quality of vehicles sold in the United States upon motor vehicle manufacturers.

[1] The Motor Vehicle Manufacturers Association of the United States, Inc. is an incorporated not-for-profit trade association which has no parent companies, subsidiaries or affiliates. Its members are: American Motors Corporation; Chrysler Corporation; Ford Motor Company; General Motors Corporation; Honda of America Manufacturing, Inc.; LTV Aerospace & Defense Company, AM General Division; M.A.N. Truck & Bus Corporation; Navistar International Corporation; PACCAR Inc.; Volkswagen of America, Inc.; and Volvo North America Corporation.



The Court's decision in this case will ultimately define the degree of control that a domestic vehicle manufacturer may lawfully exert over the distribution of its trademarked products. Neither Respondents, whose position MVMA supports, nor Petitioners, are likely to present to the Court the effects of its decision on the enforcement and implementation of the government policies embodied in the pervasive vehicle safety, emissions, fuel economy and consumer protection regulations.

## INTRODUCTION AND SUMMARY OF ARGUMENT

This *Amicus* brief sets forth an analysis of the consequences which would flow from a reversal of the Court of Appeals decision to the highly regulated U.S. motor vehicle industry, its distribution practices and the quality of its products, and its consumers. It will demonstrate that the U.S. Customs Service regulation, 19 C.F.R. § 133.21, by facilitating imports into the United States of automobiles which do not comply with U.S. requirements, adversely affects legitimate distribution practices of U.S. vehicle manufacturers. The Customs regulation also undermines the public interest by failing to assure that vehicles sold in the United States comply with federal and state standards.

Contrary to Petitioners' assertions, grey market motor vehicles bearing marks identical to the U.S. registered marks cannot be presumed to be the same as vehicles sold in the United States by MVMA member companies, or to comply with standards applicable to the United States. By virtue of the Customs regulation, importation into this country of unqualified vehicles from Canada, Mexico and overseas allows a deceit on the public, as well as an infringement upon the legitimate interests of the domestic vehicle industry in controlling distribution of its motor vehicles.

This brief examines the proper context of § 526 of the Tariff Act, 19 U.S.C. § 1526, to demonstrate that there is no policy or

legal justification for the Customs regulation under modern trademark law. The invalidity of the Customs regulation becomes apparent when its effect on the substantive rights and responsibilities of U.S. trademark registrants is considered. The motor vehicle industry is characterized by an extensive consumer-manufacturer relationship beginning before the purchase of a vehicle and lasting for years thereafter. The interest in meeting consumer needs is reinforced by the expanding range of statutory obligations to consumers. In this context, the strong reliance placed on the trademark applied to a vehicle and the good will established in the United States by MVMA member companies is undercut by the Customs regulation contrary to the Tariff and Trademark Acts.

## ARGUMENT

### I. THE CUSTOMS SERVICE REGULATION CONFLICTS WITH PUBLIC POLICIES AFFECTING MOTOR VEHICLE DISTRIBUTION IN THE UNITED STATES

Section 526 of the Tariff Act, on its face, grants protection to U.S. owners of registered trademarks without limitation. Therefore, in order to buttress the Customs Service's so-called "common control" exception to this protection, Petitioners have stressed the importance of the "legitimate commercial expectations in this instance". Brief for Federal Petitioner at 44. We now examine in some detail those "expectations" for the domestic motor vehicle industry.

#### A. The Customs Regulation Operates At Cross Purposes To The Many Federal And State Regulations Which Presuppose Manufacturer Control Of Motor Vehicle Distribution

U.S. motor vehicle manufacturers are subject to a myriad of state and federal laws and regulations enacted to protect public



health, safety and consumer welfare. These laws and regulations affect vehicle safety, emissions, fuel economy, noise levels, labelling and warranties.[2] This phenomenon was recognized by this Court in *Continental T.V., Inc.* v. *GTE Sylvania Inc.*, 433 U.S. 36, 55, note 23 (1977), where it stated that "[A]s a result of statutory and common-law developments, society increasingly demands that manufacturers assume direct responsibility for the safety and quality of their products."

In enacting these statutes affecting the automobile industry, Congress and state legislatures presupposed that U.S. motor vehicle manufacturers control the distribution of vehicles sold in the United States under their trademarks. The Customs Service regulation undercuts this assumption by facilitating the importation of grey market brand name vehicles that U.S. motor vehicle manufacturers did not intend to be sold in the United States.

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[2] For example, manufacturer suggested retail price labelling requirements are set forth in the Automobile Information Disclosure Act, 15 U.S.C. § 1231, *et seq.*; safety standards, reporting and recall provisions in the National Traffic and Motor Vehicle Safety Act of 1966, 15 U.S.C. § 1381, *et seq.*; bumper, fuel efficiency and theft prevention standards in the Motor Vehicle Information and Cost Savings Act, 15 U.S.C. § 1901, *et seq.*; emissions standards, warranties, reporting and recall provisions in the Clean Air Act, 42 U.S.C. § 7401, *et seq.*; noise standards in the Noise Control Act of 1972, 42 U.S.C. § 4901, *et seq.*; "gas guzzler" taxes, Internal Revenue Code, 26 U.S.C. § 4064.

In addition, various state laws further regulate vehicle equipment and performance and assorted warranty (i.e., "lemon law") obligations. See for example, Cal. Health & Safety Code § 43000, *et seq.* (West Supp. 1986); Motor Vehicle Warranty Enforcement Act, Fla. Stat. Ann. § 681.101, *et seq.* (West Supp. 1987); New-Car Buyer Protection Act, Ill. Ann. Stat. ch. 121-1/2, § 1201, *et seq.* (Smith-Hurd Supp. 1986); Mass. Ann. Laws ch. 90, § 7N-1/2 (Michie/Law. Co-op. Supp. 1987); An Act Concerning Certain Automobile and Motorcycle Warranties, N.J. Stat. Ann. § 56:12-19, *et seq.* (West Supp. 1986); and N.Y. Gen. Bus. Law § 198a (McKinney Supp. 1987).

Despite the fact that many vehicles intended for sale outside the United States may look like a U.S. vehicle, there may be many significant differences. CHRYSLER, FORD or CHEVROLET branded vehicles intended for sale outside the U.S. are equipped to meet local market conditions. As such, they may possess different suspensions, chassis, engines and standard and optional equipment.

Perhaps the most glaring regulatory areas in which the Customs Service regulation is at odds with other federal and state regulatory efforts involve safety and emissions. Regulations require that Customs identify vehicles which lack a certificate attesting conformance to U.S. safety and emissions standards and require posting a bond to ensure that such vehicles will be modified to meet those standards.[3] The effectiveness of these regulations hinges on identification by Customs of grey market vehicles. If, because of the familiar trademark, a vehicle is not recognized or policed as grey market, these Customs Service controls cannot work. Yet, if the Customs Service regulation at issue followed the plain meaning of § 526, then grey market vehicles that do not comply with applicable vehicle standards could be effectively excluded from the United States. These conflicting policy concerns with grey market European automobiles are discussed in a recent report of the United States General Accounting Office.[4] Similar compliance issues and policy conflicts exist with regard to the grey market importation from Canada and elsewhere of vehicles bearing the trademarks of U.S. motor vehicle manufacturers.

[3] 19 C.F.R. § 12.73, *et seq.* (1984).

[4] Report to the Chairman, Subcommittee on Oversight and Investigations, Committee on Energy and Commerce, House of Representatives entitled, "Auto Safety and Emissions — No Assurance that Imported Grey Market Vehicles Meet Federal Standards", December 1986. Copies of this report are being lodged with the Court for its convenience.



### 1. Motor Vehicle Safety Regulation

The National Traffic and Motor Vehicle Safety Act of 1966, 15 U.S.C. § 1381, *et seq.*, as amended, requires that new vehicles sold or imported into the United States comply with federal motor vehicle safety standards. Pursuant to that Act, the Secretary of Transportation has issued 49 safety standards to promote automotive safety and to reduce traffic accidents, including deaths and injuries. Federal Motor Vehicle Safety Standards, 49 C.F.R. § 571, *et seq.* (1986).

In the case of the unbridled importation from Canada or Mexico of grey market vehicles bearing the trademarks of U.S. motor vehicle manufacturers because of current Customs enforcement policies, consumers have no guarantee that such vehicles meet all U.S. safety standards. It is believed that most consumers do not even know they are buying a grey market vehicle because they rely on the U.S. trademark in their purchasing decision.

In the event of a safety recall, whether mandatory or voluntary, owners of grey market vehicles bearing the trademarks of U.S. motor vehicle manufacturers may not be notified. The U.S. manufacturer has no record of those vehicles being in the United States. This inability to locate and notify owners of recalled vehicles may prevent MVMA member companies from remedying the conditions which required recall.[5]

The consequences of a failure to locate and recall a grey market vehicle could present a safety risk to consumers. The lower prices claimed by the proponents of grey market goods do not compensate consumers for such risks.[6]

[5] This assumes, which may not be the case, that the grey market vehicle has sufficient basic equipment that can be upgraded to correct the faulted conditions.

[6] National economic conditions, including foreign price controls or extremely high sales taxes, often have the effect of "lowering" the manufacturer's price in some overseas markets, but there is no

## 2. Mobile Source Pollution Control

The Clean Air Act, as amended, 42 U.S.C. § 7401, *et seq.*, requires that all new gasoline and diesel fueled vehicles be certified to the Environmental Protection Agency (EPA), by the vehicle manufacturer as meeting emission standards for hydrocarbon, carbon monoxide, oxide of nitrogen, evaporative, and, where applicable, diesel particulates. These vehicle emissions may affect air quality and pose public health risks.

Vehicles manufactured for sale outside the United States are subject to different emission control regulations. For example, CHEVROLET and PLYMOUTH branded vehicles sold in Mexico lack catalytic converters necessary to meet U.S. emission standards. Moreover, even if some CHEVROLET, PLYMOUTH and FORD branded vehicles sold outside the United States are capable of meeting U.S. emissions performance standards, those vehicles do not comply fully with all other U.S. regulatory requirements, including certification.[7] Despite MVMA member company efforts, the Customs Service routinely passes uncertified grey market vehicles into the United States without verifying that these vehicles conform to all applicable U.S. statutes and regulations. In essence, the Customs Service allows these vehicles into the United States merely because they bear the familiar trademark of a U.S. motor vehicle manufacturer.

Just as in the case of safety recalls, MVMA member companies are unable to recall grey market vehicles for possible emissions equipment modifications. Grey market vehicles are simply "invisible" for recall purposes; they are a phantom fleet.

## 3. Motor Vehicle Fuel Efficiency

The Customs Service regulation undercuts the corporate average fuel economy (CAFE) standards established by Congress and the Department of Transportation.

In 1975, Congress enacted the Energy Policy and Conservation Act, 15 U.S.C. §§ 753-55; 757-60h; 792; 796; 1901; 2001-12; 42 U.S.C. §§ 6201-6422, in response to the 1973 Mideast oil crisis and for the purpose of reducing consumption of petroleum products. Title III of that Act, 15 U.S.C. § 2001, *et seq.*, requires U.S. motor vehicle manufacturers to meet increasingly stringent fuel economy goals for their vehicles sold in the United States. The Act sets a fuel efficiency standard measured by miles per gallon and averaged over the entire fleet of cars produced each year for sale in the United States. Under the Act, automobile manufacturers not meeting the CAFE standards are subject to fines.

The large scale importation into the United States of grey market vehicles intended for sale in foreign countries falls outside of any CAFE calculation. By not blocking the importation of grey market motor vehicles, the Customs Service regulation is thwarting the intent of Congress with regard to U.S. consumption of petroleum products.

## 4. Warranty And Consumer Information

Vehicles intended for sale outside the United States are likely to be equipped differently and perform differently than their U.S. counterparts. They are likely to contain metric

basis in law or equity for exporting foreign government economic distortion to the U.S., where different U.S. governmental policies have resulted in different costs and different prices.

[7] EPA regulations allow certain heavy-duty trucks equipped with gasoline engines to be sold in the United States although they may exceed U.S. emissions standards. 40 C.F.R. § 86.1101-87 (1985). Under the law, those vehicles manufactured for use in the United States require payment of a non-conformance penalty (NCP), and must display labels indicating payment of an NCP and the nonconforming pollutant compliance level and a certificate of compliance with EPA regulations. Grey market trucks intended for sale in Canada do not have an NCP label, nor is any NCP payment made to EPA.

instrument gauges, have owner's manuals in a foreign language, lack labels or other consumer notices required by U.S. law, and have different warranties, even though the motor vehicle may bear a famous trademark of a MVMA member company and model designation identical to that used in the United States.

All vehicles intended for sale in the United States must exhibit price labels or "window stickers" as required by the Automobile Information Disclosure Act, 15 U.S.C. § 1231, *et seq.* Among other things, this label informs consumers of all optional and standard equipment contained on the vehicle including the manufacturer's suggested retail price for each item. The label of vehicles intended for sale outside the United States may not display all of the information that is required by U.S. law. Although the Act provides that an importer also must affix this label, there is no assurance for example, that a broker importing 200 new CADILLAC branded vehicles from Canada to the United States will be able to list accurately the equipment they contain, provide the correct manufacturer's suggested retail prices in U.S. dollars or fuel consumption information in miles per gallon.

Motor vehicles intended for sale outside the United States may differ with respect to the manufacturers' warranties. The scope of U.S. and foreign warranties may vary as to the equipment covered and the term of the protection, and the grey market importer is unlikely to make-up any warranty deficiency.[8]

[8] Components such as tires may have separate warranties from those extended by the vehicle manufacturer. The warranties may have no value outside the country where the vehicle was sold initially. Emissions performance warranties by the U.S. vehicle manufacturer required by federal and California law may not be applicable to grey market vehicles. See, e.g., Energy Policy and Conservation Act, 42 U.S.C. § 7521; 40 C.F.R. § 85.2107 (1986); Cal. Health & Safety Code § 43204 (West Supp. 1986); Cal. Admin. Code tit. 13, § 2035.



The Customs Service regulation permitting the importation of these vehicles into the United States facilitates customer deception and a loss of good will on the part of vehicle manufacturers and their dealers because consumers end up getting vehicles different from those they reasonably expected to receive. As a result, owners of the vehicles may unexpectedly face fines or repair costs before the vehicles can be registered.[9]

Further, whatever warranty might be provided by the manufacturer may have already expired by the time a problem is noted. For example, the time clock on warranties starts with the first sale of the vehicle by a dealer. By the time the vehicle has passed from a foreign dealer through the grey market channel, several months of warranty may have elapsed, yet the U.S. consumer is unaware of this since he views the vehicle as new.

A consumer who unknowingly buys a new grey market vehicle, intended for sale in the United Kingdom, Mexico, Canada or elsewhere, expects the vehicle to meet all U.S. legal requirements and believes that his warranty and servicing will be the same as for authorized vehicles sold in the U.S. In most cases, consumers believe that they are purchasing U.S. authorized vehicles because the grey market vehicle bears a famous trademark identical to those used in U.S. production. Consumers frequently become confused and dismayed as to why there is no warranty or why the warranty is different from those of other domestic vehicles. MVMA member companies suffer a loss of good will because the consumer blames the U.S. trademark owner and not the grey market importer.

[9] See, e.g., Arizona Annual Emission Inspection of Motor Vehicles, Ariz. Rev. Stat. Ann. § 36-1771, *et seq.* (Supp. 1986); Md. Transportation Code Ann. § 23-201, *et seq.* (1984); and Michigan Vehicle Emissions Inspection and Maintenance Act, Mich. Comp. Laws Ann. § 257.1051, *et seq.* (West Supp. 1986).

### B. The Customs Regulation Adversely Affects U.S. Manufacturers' Control Of Distribution Of Their Vehicles

U.S. manufacturers distribute trademarked motor vehicles through over 20,000 independent franchised dealers whose relationships with the U.S. motor vehicle manufacturers are controlled by comprehensive sales and service agreements. A dealer makes a significant capital investment in order to be authorized to sell at retail and to provide services for new vehicles. In most cases, a dealer's investment includes real estate, sales and service facilities, a trained staff of certified technicians, mechanics and an inventory of new vehicles and parts. A typical dealer's agreement contains not only vertical restrictions intended to promote marketing efficiency, [10] but also requirements regarding pre- and post- sale information, equipment and training and replacement parts inventories.

This Court has recognized that "[S]ervice and repair are vital for many products, such as automobiles and major household appliances. The availability and quality of such services affect a manufacturer's good will and the competitiveness of his product." *Continental* v. *GTE,* 433 U.S. at 55.

Consumer dissatisfaction with grey market vehicles harms the good will of MVMA member companies and their dealers and the image and reputation of their products and trademarks. Brokers of grey market vehicles have no incentive to protect the good will of MVMA member companies' trademarks. The

[10] "Vertical restrictions promote interbrand competition by allowing the manufacturer to achieve certain efficiencies in the distribution of his products. ... Established manufacturers can use them to induce retailers to engage in promotional activities or to provide service and repair facilities necessary to the efficient marketing of their products.... Because of market imperfections such as the so-called 'free rider' effect, these services might not be provided by retailers in a purely competitive situation, despite the fact that each retailer's benefit would be greater if all provided the service than if none did." *Continental* v. *GTE,* 433 U.S. at 54-55.



marketing scheme of grey market brokers is to sell famous brand name products solely on the basis of price. This goal is achieved by the unauthorized use of famous trademarks of MVMA member companies which, because of the commercial magnetism of the marks, allows the grey market broker to sell grey market goods with little or no investment. In this manner, the grey market broker free rides on the advertising, servicing and good will associated with the trademark and disrupts the legitimate distribution of goods and services under U.S. registered trademarks.

## II. THE CUSTOMS SERVICE REGULATION CONFLICTS WITH U.S. TRADEMARK LAW

Petitioners' treatment of trademark rights has a distinct "now you see it, now you don't" quality. Petitioners invoke principles of trademark law to point to the "sharp departure" supposedly represented by § 526 of the Tariff Act as reason for this Court to ignore the plain language of the statute and, instead, delve into the ambiguous legislative history and conflicting case law surrounding the statute. Thereafter, they consider § 526 and the Customs regulation in a vacuum as far as the substantive rights of U.S. trademark owners are concerned.

It is clear that the Customs regulation is enabled by both the 1930 Tariff Act and the Lanham Act. While § 526 is commonly referred to as a Customs or trade statute, it is also clear that application and understanding of this statute cannot be undertaken without reference to trademark law. Yet, trademark owners' rights, which are at the heart of § 526, are totally ignored.

The banner trademarks of the MVMA member companies, such as CHEVROLET, FORD, CHRYSLER and JEEP, are the linchpins that make the franchised vehicle dealer system function. The good will associated with these and similar marks is the magnet that draws retail customers to the dealership.

Grey market distribution of motor vehicles puts this valued good will in the hands of others and beyond the legitimate control of MVMA member companies. That is quite simply not fair or in the public interest. Affirmance of the Court of Appeals decision would assure that domestic vehicle manufacturers can enjoy in full the benefits of the good will they have worked to establish in their famous marks and to assure that the policy interests behind the vehicle safety, emissions and fuel economy laws are satisfied.

### A. Trademarks Provide The Cornerstone To The Effective Distribution Of Domestic Motor Vehicles

The foundation of American trademark law rests upon the bedrock proposition that a trademark symbolizes the good will of the product, service or business in connection with which the mark is employed. *McLean* v. *Fleming,* 96 U.S. 245 (1878). Adjunct to this proposition is that a trademark, as a symbol of good will, constitutes legally protectable property. *Old Dearborn Distributing Co.* v. *Seagram-Distillers Corp.,* 299 U.S. 183, 194 (1936).

*A. Bourjois & Co., Inc.* v. *Katzel,* 260 U.S. 689 (1923), established the principle of "territoriality" of trademarks and barred the importation of goods produced abroad and bearing a "genuine" trademark. In *Bourjois,* the Court held that the mark in question was the trademark of the plaintiff in the United States; that mark "indicates in law" and by public understanding that the goods came from the plaintiff, although not made by it. 260 U.S. at 692.

It is generally acknowledged that § 526 of the Tariff Act was enacted in response to the decision by the Court of Appeals for the Second Circuit in *A. Bourjois & Co., Inc.* v. *Katzel,* 275 F. 539 (2d Cir. 1921), *rev'd* 260 U.S. 689 (1923). The same Circuit Court subsequently considered the scope of § 526 in *Sturges* v. *Clark D. Pease, Inc.,* 48 F.2d 1035 (2d Cir. 1931). It held that a second-



hand "Hispano-Suiza" auto shipped from Europe should be excluded because the U.S. owner of the "H-S" trademark registration had filed it with Customs authorities. The Second Circuit recognized that, under § 526, the U.S. trademark owner and U.S. distributor for "Hispano-Suiza" cars had the right to have Customs exclude even one single automobile. This decision broadly interpreting § 526 was by the very court that earlier had decided that the goods in *Katzel* should not be excluded. Judge Augustus Hand stated:

> "A mark betokening the origin of a car is an important element in its value, and the American owner of the mark is entitled to have the benefit of such sales as are affected by it." 48 F.2d at 1037.

The case for the MVMA member companies' trademarks such as CHRYSLER, FORD and CHEVROLET is more compelling than *Sturges.* These famous marks originated in the U.S. and are owned by long established U.S. companies.

#### 1. MVMA Member Companies' Trademarks Serve A Quality Or Guarantee Function

Supporters of the Customs Service regulation misconceive the nature and scope of the function of trademarks; they would allow consumers to be deceived and misled. Trademarks have, among other things, a "quality" or "guarantee" function. 1 McCarthy, Trademarks and Unfair Competition, § 3:4 (2nd ed. 1984). Under the quality function of trademarks, a mark not only indicates a source, but also serves as a badge of quality to indicate a level of consistent quality of goods or services. *Park'N Fly, Inc.* v. *Dollar Park and Fly, Inc.,* 469 U.S. 189, 193 (1985) ("trademarks desirably promote competition and the maintenance of product quality . . ."). In fact, some of the very trademarks of MVMA member companies, such as CADILLAC, LINCOLN, and NEW YORKER, in the minds of American consumers, set the standards for quality.

Passage of the Lanham Act in 1946 and subsequent amendments codified the quality function of trademarks. 15 U.S.C. § § 1114 and 1127 (expanded test of confusion of any kind and definition of "related company"). It is the trademark functions of indication of quality and of source which provide the very basis for modern business franchising so vital to U.S. motor vehicle manufacturers. The Customs Service regulation at issue here aids and abets the unauthorized use of the marks, to the total detriment of the franchise system.

Trademarks also serve the manufacturer, merchant or seller as an important advertising element in promoting their goods and services. The advertising function of trademarks creates the consumer demand for the goods and services on which the mark appears. MVMA member companies have committed significant funds to promote products bearing their registered trademarks with the expectation of sales and resultant economic gain. Not only are their trademarks symbols of good will, indications of source and badges of quality, but a highly efficient means for creating consumer demand and acceptance for the goods and services. *Mishawaka Rubber & Woolen Mfg. Co.* v. *S.S. Kresge Co.*, 316 U.S. 203, 205 (1942) ("protection of trademarks is the law's recognition of the psychological value of symbols" in the purchasing decision).

### 2. Customers Of U.S. Motor Vehicle Manufacturers Have An Interest In Trademarks That Must Be Protected

Trademarks protect the interests of trademark owners, their franchisees and consumers. The multiple interest in trademark protection (i.e., the interest of the consumer as well as the trademark owner), have been recognized by the courts and Congress. *Park'N Fly*, 469 U.S. at 198. (The Lanham Act protects a trademark owner's good will and consumer's ability to distinguish competing products.) See also, *Dallas Cowboys Cheerleaders, Inc.* v. *Pussycat Cinema Ltd.*, 604 F.2d 200, 205 (2d Cir. 1979). Protection of U.S. trademarks, therefore, must be viewed from both the trademark owners' and the consumers' interests. By denying § 526 protection to certain U.S. manufacturers and domestic registrants and thereby permitting widespread grey marketing, the Customs Service regulation fails to protect the interests of consumers as well as U.S. manufacturers and trademark owners. Specifically with respect to the U.S. motor vehicle industry, it flies in the face of the public policy embedded in the federal and state vehicle safety, emissions and fuel economy laws.



## B. The Customs Service Regulation Impairs U.S. Trademark Rights

There can be no doubt that the Customs Service regulation fails to protect a substantial number of domestic registrants of U.S. trademarks and thus impairs their substantive rights. One Petitioner argues that the Customs Service regulation comports with U.S. trademark law, but the contrary is true.

The Customs Service regulation denies MVMA member companies owning U.S. registered trademarks the procedural protection that the plain meaning of § 526 provides. Protection is denied simply on the grounds of an arbitrarily defined degree of ownership or relationship between the domestic trademark registrant and a foreign entity or because the goods are made overseas where the mark is applied to the goods with permission of the U.S. trademark owner.

Petitioners attempt to justify the Customs Service regulation on the ground that, as to this class of U.S. trademark registrants, the procedural protections of § 526 should be denied as there can be "no confusion of source" as to grey market goods. Brief for Petitioner K Mart at 38. Petitioners attempt to explain that in these instances (and paradoxically not in others), consumers know the goods are of foreign manufacture

or are distributed by a U.S. company having some relationship with the foreign trademark owner and manufacturer. This argument narrowly focuses on archaic functions of trademarks and completely ignores the obvious fact that a domestic trademark registrant is entitled to protection from confusion of any kind including confusion as to affiliation, sponsorship and approval. See *Warner Bros., Inc.* v. *Gay Toys Inc.*, 658 F.2d 76, 79 (2d Cir. 1981). If, as Petitioners urge, the Customs Service regulation denies § 526 protection to certain U.S. registrants because of the alleged absence of source confusion, then the regulation directly conflicts with U.S. trademark law by failing to consider other forms of confusion, such as confusion concerning the quality and advertising functions of trademarks. These functions and services are being performed by U.S. motor vehicle manufacturers and their authorized franchisees who distribute, service and promote the sale of vehicles which meet federal and state laws and bear their famous U.S. trademarks.

Moreover, Petitioner's argument supporting the Customs Service regulation under the source theory of trademarks considers only alleged absence of confusion as to the identity of the manufacturing source without considering the identity of the U.S. distributional source of the goods or services. The "distributional source" function of trademarks is found in the very definitions of the terms "trademark" and "service mark" in the Lanham Act. 15 U.S.C. § 1127.

No Petitioner has explained, or can explain, the paradox which exists under the Customs Service regulation where confusion of source is assumed to exist for U.S. trademark registrants qualifying for § 526 protection, while for other U.S. trademark owners who are denied § 526 protection, confusion of source is assumed not to exist. This anomaly serves to illustrate that there is no legal or policy justification for the Customs Service regulation under modern trademark law.



## C. MVMA Member Companies Have An Exclusive Right To The Use Of Their Trademarks In The United States

Registration of a mark on the Principal Register is *prima facie* evidence of a registrant's ownership, the validity of the registration and of the exclusive right of the registrant to use the mark in commerce in connection with the goods specified in the Certificate of Registration. 15 U.S.C. § 1057. The importance of the "exclusive right of use" was emphasized by this Court's pronouncement that unless an incontestable registration could be asserted to enjoin infringement by others, the "exlcusive right" recognized by the Lanham Act would be rendered meaningless. *Park'N Fly*, 469 U.S. at 196. This same "exclusive right" is in fact stripped away by the Customs Service regulation since it allows others to use the famous marks of MVMA member companies without their consent.

Petitioners attempt to justify the invasion of a U.S. trademark registrant's exclusive right of use by asserting that the registrant does not qualify for § 526 protection when its mark does not possess good will in the United States apart from any good will which the mark enjoys elsewhere in the world. This justification is contrary to the statutorily conferred *prima facie* and conclusive presumptions of validity and ownership which are accorded all U.S. trademark registrations. 15 U.S.C. §§ 1057, 1115(b). These statutory presumptions of ownership and validity carry with them the added presumption that good will exists and is appurtenant to the mark because, by definition, a trademark is a symbol of good will and can have no existence apart from the good will which it represents. *McLean* v. *Fleming*, 96 U.S. at 252; *United Drug Co.* v. *Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918); 15 U.S.C. § 1057(b). In *Park'N Fly*, this Court stated that "[T]he Lanham Act provides national protection of trademarks in order to secure to the owner of the mark the good

will of his business and to protect the ability of consumers to distinguish among competing producers". 469 U.S. at 198.

The denial of § 526 protection to a substantial class of U.S. trademark registrants such as MVMA member companies on the ground that such registrants have not established good will in the United States is directly contrary to the statutory presumption that the registered mark is valid and owned by the registrant of record and, therefore, symbolizes good will. It is pure folly to suggest that MVMA member companies such as General Motors, Ford and Chrysler do not have established good will in the United States. Yet, the Customs regulation denies this fact.

The question before this Court cannot be decided by Petitioners' contorted reading of the statute and resort to inapplicable principles of statutory construction. A plain reading of § 526 with a fundamental knowledge and appreciation of modern trademark law manifests the intention of this section to include all U.S. registrants who are citizens of and domiciliaries in the United States regardless of what relationship they have with their authorized users of identical foreign marks.

### D. The Statutory Preference To U.S. Parties Under § 526 Serves A Legitimate Purpose

Section 526 enhances the substantive rights granted to U.S. trademark owners under the Lanham Act by creating a procedure for recording trademark registrations with the Customs Service and receiving a comprehensive exclusion order. Unlike the provisions of the Lanham Act, § 526 does not extend its procedural advantages to foreign entities. However, since § 526 does not impart any additional substantive trademark rights on its beneficiaries, it is not inconsistent with § 44(b) of the Lanham Act, 15 U.S.C. § 1126(b), or relevant international treaties which require reciprocity of rights.

Moreover, as a Customs and trade statute, § 526 was naturally designed and intended to protect United States trade



and domestic businesses such as MVMA member companies. This is a lawful and legitimate purpose which has also been the basis for similar procedural benefits accorded to U.S. owners of other intellectual property rights. For example, under § 601, *et seq.* of the Copyright Act, 17 U.S.C. § 601, *et. seq.*, only a U.S. national or domiciliary can exclude the importation of certain copyrighted works. Likewise, under § 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, merchandise may be excluded by the International Trade Commission if it finds the existence of unfair practices or unfair methods of competition against a domestic industry.

Petitioners and this *Amicus* agree that § 526 was enacted to protect domestic businesses such as the MVMA member companies here. Yet, the Customs regulation prevents MVMA member companies from availing themselves of the benefit of the Tariff Act simply because products bearing these trademarks are sold abroad with their consent.

## III. CONCLUSION

The decision of the Court of Appeals for the District of Columbia Circuit should be affirmed.

Respectively submitted,

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# AMICUS CURIAE

# BRIEF

(20) (20) - (19)

Nos. 86-495, 86-624 and 86-625



# In the Supreme Court

OF THE

# United States

OCTOBER TERM, 1986

THE UNITED STATES OF AMERICA;
K MART CORPORATION; AND
47TH STREET PHOTO, INC.,
*Petitioners,*

VS.

COALITION TO PRESERVE THE
INTEGRITY OF AMERICAN TRADEMARKS;
CARTIER, INC.; AND CHARLES OF THE
RITZ GROUP, LTD.,
*Respondents.*

**ON WRITS OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT**

**BRIEF, AMICUS CURIAE, FOR THE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, INC.**

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13 PP

## TABLE OF CONTENTS

## TABLE OF AUTHORITIES

### Cases



### Statutes



### Regulatory Materials



### Miscellaneous



**Nos. 86-495, 86-624 and 86-625**

# In the Supreme Court

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**ON WRITS OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT**

**BRIEF, AMICUS CURIAE, FOR THE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, INC.**

## AUTHORITY TO FILE

The American Intellectual Property Law Association, Inc. ("AIPLA") respectfully submits this brief as Amicus Curiae in support of the respondents. Pursuant to Rule 36.1 of this Court, consent to the filing of this brief has been granted by all parties, and letters of consent have been filed with the Clerk of Court.

## INTEREST OF THE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

The American Intellectual Property Law Association, Inc. ("AIPLA") is a national society of more than 5300 members of the bars of many of the different states engaged in the practice of patent, trademark, copyright, licensing, trade secret, and other laws protecting intellectual property rights. The AIPLA membership includes attorneys in private, corporate, and government practice; lawyers associated with universities, small business, and large business; and lawyers active in both the domestic and international transfer of technology and licensing.

AIPLA is concerned with the trademark issues raised by the actions of the Customs Service which are the subject of this controversy and is participating as amicus curiae so that its views on these issues can be considered. AIPLA supports the holding of the Court of Appeals for the District of Columbia Circuit. AIPLA takes no position on the jurisdictional issue.

## SUMMARY OF ARGUMENT

(1) Section 526 of the Tariff Act (19 U.S.C. § 1526) is clear and unambiguous.

(2) Section 526 of the Tariff Act is consistent with the territorial nature of trademark rights in the United States.

(3) Any change in the clear and unambiguous language of Section 526 should be by legislation, not by administrative action.

## ARGUMENT

### A. The Statute is Clear and Unambiguous

Section 526(a) of the Tariff Act of 1930, 46 Stat. 741, as amended by the Customs Procedural and Simplification Act of 1978, 92 Stat. 888, 19 U.S.C. § 1526(a) (Supp. 1987), provides:

> (a) Importation Prohibited.—Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of sections 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15, unless written consent of the owner of such trademark is produced at the time of making entry.



Subsection (d) of Section 526 allows travelers returning to this country to bring with them for their personal use a very small quantity of trademarked goods bearing a United States trademark. The only other statutory exception to the importation exclusion requirements of Section 526 is found in 48 U.S.C. § 1643 where Congress specifically exempted from such import restrictions "genuine foreign merchandise bearing a genuine foreign trademark," where such goods would otherwise be prevented from entering the country under Section 526. This statute, which deals with foreign-made goods imported into the Virgin Islands, and their subsequent importation into the United States or its possessions from the Virgin Islands, provides that "[Section 526] shall not apply to importations into the Virgin Islands of genuine foreign merchandise bearing a genuine foreign trade-mark, but shall remain applicable to importations of such merchandise from the Virgin Islands into the United States or its possessions . . . " (48 U.S.C. § 1643 (Supp. 1987)).

Notwithstanding the plain meaning of Section 526 and the absence of any other statutory exception, the regulations of the Customs Service challenged here (19 C.F.R. § 133.21(c)(1) through (3) (1986)) exempt from exclusion under Section 526 articles sought to be imported into the United States where:

> (1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;

(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control; or

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner.[1]

AIPLA submits that Section 526 of the Tariff Act is clear and unambiguous and that the Customs regulations at issue here (19 C.F.R. § 133.21(c) (1) through (3)) are in conflict with its clear and unambiguous provisions.

**B. Section 526 is Consistent With the Territorial Nature of Trademark Rights in the United States**

In *Bourjois v. Katzel*, 260 U.S. 689, 692 (1923), this Court recognized that trademark rights in the United States are territorial in nature. The Court, speaking through Justice Holmes, stated:

> [I]f the goods were patented in the United States a dealer who lawfully bought similar goods abroad from one who had a right to make and sell them there could not sell them in the United States. [citation omitted] The monopoly in that case is more extensive, but we see no sufficient reason for holding that the monopoly of a trademark, so far as it goes is less complete.[2]

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[1] These regulations apply irrespective of whether the articles in question are the same as or different from the articles authorized to be sold in the United States by the trademark owner.

[2] Note that the principle of territoriality has always applied in the patent law. *See Boesch v. Graff*, 133 U.S. 697, 702 (1890), answering in the negative "[t]he exact question . . . whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, without the license or consent of the owners of the United States patent." The Customs regulations at issue here do not affect the principle of territoriality in patent law.



Section 526 of the Tariff Act recognizes the principle of territoriality of trademark rights by authorizing the domestic owner of a United States trademark registration to prevent importation of any merchandise of foreign manufacture bearing its mark. The Customs regulations at issue are inconsistent with the principle of territoriality.

One of the principal reasons for the territoriality of trademark rights is the many variations in the quality and nature of the goods. Goods intended for a different market may use different language on their labels and instructions, may offer differences in quality relating to the customs or tastes of the local market, and may not carry with them warranties and service contracts, which are an expensive component of a manufacturer's cost for making goods available for sale.

Thus, the Customs regulations at issue also disturb the public's reliance upon the quality function of trademarks, the ability of a trademark to represent and guarantee the standard of product quality set by the trademark owner. *See* Schechter, "The Rational Basis of Trademark Protection," 40 *Harvard Law Review* 813 (1927). Instead of looking at the goods or their nature and quality, the regulations look only at the relationship between the United States trademark owner and the foreign manufacturer. As one commentator has noted:

> The trademark owner should have a lawful claim to protection of his right when he has to adapt the quality of his goods to the national taste of the public and to particular national circumstances, *e.g.*, to the climate of the country where he wants to sell his goods. If such goods were to be imported against his will from another country where these relevant circumstances differed, the good will and integrity of his domestic trademark would suffer, thus entitling him to claim trademark protection against these undesired imports.

H.W. Wertheimer, "The Principle of Territoriality in the Trademark Law of the Common Market Countries," 58 *Trademark Reporter*, 230, 246 (1968).

The Customs regulations in question are both contrary to the plain meaning of the statute and contrary to the principle of territoriality of trademark rights adopted by this Court.

### C. If the Clear and Unambiguous Language of Section 526 is to be Changed, Such Change Should be by Legislation, Not Administrative Action

The Customs Service has general authority to make rules to enforce the Tariff Act, such as stated in Section 624 (19 U.S.C. § 1624 (Supp. 1987)) and under Section 526(d)(4), but even under the latter section, that authority is limited only to prescribing "such rules and regulations *as may be necessary* to carry out the provisions of *this subsection*" (emphasis supplied). The Customs regulations at issue here are not at all necessary to carry out the provisions of that subsection and do not represent enforcement of the Tariff Act, but rather represent the carving out of a major exception to the rule of law therein. *See, Securities Industries Association v. Board of Governors*, 468 U.S. 137 (1984), where the Court rejected a Board of Governors of the Federal Reserve interpretation of the Glass-Steagall Act where the statute was clear and no authority was designated to construe the Act. *Cf., Securities Industries Association v. Board of Governors*, 468 U.S. 207 (1984).

Congress provided an exception in Section 526(d) to permit returning travelers to bring with them limited quantities of trademarked goods for their own personal use. Congress also provided an exemption in 48 U.S.C. § 1643 for goods imported into the Virgin Islands. As noted by the Ninth Circuit Court of Appeals, "[t]here can be no question that Congress intended section 1526(a) to bar the importation of genuine goods unless authorized by the domestic trademark owner. [Citing, *e.g., Coalition to Preserve the Integrity of American Trademarks v. United States*, 790 F.2d 903, 910-13 (D.C. Cir. 1986); *Vivitar Corp. v. United States*, 761 F.2d 1552, 1563 (Fed. Cir. 1985); *accord, Olympus Corp. v. United States*, 792 F.2d 315, 319-320 (2d Cir. 1986)]". *United States v. Eight-Nine (89) Bottles of "Eau de Joy"*, 797 F.2d 767, 770 (9th Cir. 1986). If Congress had intended that Section 526 "not apply to importations . . . of genuine foreign



merchandise bearing a genuine foreign-trademark," then there would have been no need for Congress to negate the application of Section 526 in 48 U.S.C. § 1643 with this language. *See, United States v. Eighty-Nine (89) Bottles of "Eau de Joy", Id.*, at 771; *Weil Ceramics & Glass, Inc. v. Dash*, 618 F. Supp. 700, 715 (D.N.J. 1985).[3]

Any changes in the principle of territoriality of trademark rights or any changes in Section 526 of the Tariff Act are for the Congress,[4] and not for the Customs Service. Until Congress acts, the judiciary should strike down efforts of the Customs Service to "reverse" decisions of this Court and to "amend" duly enacted statutes.

"The judiciary is the final authority on issues of statutory construction and must reject administrative constructions which are contrary to clear congressional intent." *Chevron U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 843 n. 9 (1984). "If the intent of Congress is clear, that is the end of the matter. . . ." *Id.* at 842.

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[3] Exclusion of all trademarked goods, without the exceptions in the Customs regulations, is also consistent with Section 42 of the Lanham Act (15 U.S.C. § 1124 (Supp. 1987)).

[4] AIPLA takes no position at this time on any future legislation which might change Section 526.

## CONCLUSION

AIPLA submits that the decision of the Court of Appeals for the District of Columbia Circuit should be affirmed, and that if there is to be any amendment of Section 526 of the Tariff Act, such amendment should be by legislation, not administrative action.

Respectfully submitted,

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# AMICUS CURIAE

# BRIEF

Nos. 86-495, 86-624, 86-625

IN THE

# Supreme Court of the United States

October Term, 1986

K MART CORPORATION,

*Petitioner,*

v.

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47TH STREET PHOTO, INC.,

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COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*,

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UNITED STATES OF AMERICA, *et al.*,

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ON WRITS OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

## BRIEF OF *AMICUS CURIAE* LEVER BROTHERS COMPANY IN SUPPORT OF RESPONDENTS

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May 7, 1987

## Questions Presented

1. Whether the United States Customs Service regulations which permit the importation of "grey market" merchandise are consistent with § 526 of the Tariff Act?

2. Whether the Customs Service regulations are consistent with § 42 of the Lanham Act?

## Parties to the Proceeding

The petitioners are K Mart Corporation ("K Mart"); 47th Street Photo, Inc. ("47th Street Photo"); and the United States of America, James A. Baker, III, Secretary of the Treasury, and William von Raab, Commissioner of the United States Customs Service (the "federal petitioners"). The respondents are Cartier, Inc.; Charles of the Ritz Group, Ltd.; and Coalition to Preserve the Integrity of American Trademarks ("COPIAT"). The petitions have been consolidated for consideration by the Court upon the application of petitioner United States of America.

## TABLE OF CONTENTS

## Table of Authorities

PAGE

### Cases





PAGE



### Statutes and Rules



### Legislative Materials

IN THE

# Supreme Court of the United States

**October Term, 1986**

Nos. 86-495, 86-624, 86-625

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ON WRITS OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

## BRIEF OF *AMICUS CURIAE* LEVER BROTHERS COMPANY IN SUPPORT OF RESPONDENTS

## Interest of *Amicus Curiae* [1]

Petitioners contend that the Customs Service regulations (19 C.F.R. § 133.21) provide a reasoned and "limited exception" to § 526 of the Tariff Act (19 U.S.C. § 1526) and § 42 of the Lanham Act (15 U.S.C. § 1124) since the regulations purportedly discourage foreign manufacturers from enforcing exclusive distribution agreements in the United States. (*See* Brief for the Federal Petitioners, p. 9; Brief of Petitioner K Mart Corporation ("K Mart Brief"), pp. 37-39; Brief for Petitioner 47th Street Photo, Inc. ("47th Street Photo Brief"), pp. 45-50.) This rationale is predicated upon the erroneous assumption that all "grey market" scenarios are relatively homogeneous. The "grey market", however, is not limited to the parallel importation of substantially identical authorized and unauthorized merchandise originating from a common foreign source. As the Court of Appeals for the Federal Circuit observed in *Vivitar Corp.* v. *United States,* 761 F.2d 1552, 1570 (Fed. Cir. 1985), *cert. denied,* — U.S. —, 106 S. Ct. 791 (1986), "[t]he variations of the grey market are myriad." Premised exclusively upon the corporate relationship between domestic and foreign trademark registrants, the regulations have subverted the legitimate interests of American capital, labor and the consuming public.

Lever Brothers Company ("Lever Brothers") is confronted with the most invidious type of "grey market" scenario. Lever Brothers, the American manufacturer of quality trademarked merchandise, is affiliated indirectly

[1] Pursuant to Supreme Court Rule 36.2, all of the parties to this proceeding have consented to the submission of this brief. The parties' written consents have been filed with the Clerk of this Court. This *amicus curiae* brief is submitted in support of the Coalition to Preserve the Integrity of American Trademarks and the other respondents.



with foreign entities which manufacture similarly trademarked products for consumption overseas. While the products are facially similar, there are significant inherent differences between the trademarked merchandise manufactured by Lever Brothers for domestic consumption and the similarly trademarked merchandise produced by its foreign affiliates. Relying upon the regulations, the Customs Service has sanctioned the importation of increasing quantities of this foreign merchandise over the past four years. The influx of this "grey market" merchandise into the American marketplace has created substantial consumer confusion and threatens to damage irreparably Lever Brothers' reputation for the sale of high quality merchandise. Since this "grey market" scenario serves to crystalize the deficiencies inherent in the simplistic Customs Service regulations, a more detailed review of the evidence is appropriate.[2]

[2] On November 17, 1986, Lever Brothers commenced an action against the federal petitioners seeking a permanent injunction directing the federal petitioners to prohibit the importation of foreign-manufactured products bearing its "Shield" and "Sunlight" trademarks pursuant to § 526 of the Tariff Act and § 42 of the Lanham Act. In conjunction with the commencement of that action, Lever Brothers sought preliminary injunctive relief. By Memorandum and Order dated January 21, 1987, the United States District Court for the District of Columbia denied that application. *Lever Brothers Company* v. *United States of America, et al.,* No. 86-3151, slip op. (D.D.C. January 21, 1987).

Lever Brothers thereafter filed an interlocutory appeal and requested that the Court of Appeals for the District of Columbia Circuit enter injunctive relief pending appeal. The Court of Appeals denied that application, and entered an order directing that the appeal be held in abeyance pending the disposition of this proceeding. *Lever Brothers Company* v. *United States of America, et al.,* No. 87-5051, slip op. (D.C. Cir. March 19, 1987).

On March 6, 1987, Lever Brothers filed a petition for a writ of certiorari with this Court (Case No. 86-1439). That petition affords this Court an opportunity to consider Lever Brothers' claims in conjunction with this proceeding.

**A. Lever Brothers' "Shield" and "Sunlight" Trademarks**

Lever Brothers is a corporation organized under the laws of the State of Maine which maintains its principal place of business in New York City. Lever Brothers is engaged in the manufacture and interstate distribution of various household products, including soaps and liquid detergents. (A111, ¶ 2)[3]

Lever Brothers has manufactured and distributed high quality deodorant soap throughout the United States under its "Shield" trademarks since approximately 1977. "Shield" deodorant soap is manufactured in Hammond, Indiana. Lever Brothers has applied the "Shield" trademarks to soap products since approximately 1956. (A112, ¶ 3) These trademarks have been entered on the Principal Trademark Register of the United States Patent and Trademark Office as Registered Trademark Nos. 647,223, 1,077,719, 1,134,406 and 1,250,113. (A119-A122) These registrations are currently in full force and effect, and were recorded with the Customs Service on October 1, 1986. (A124-A131)

Over the past six years, Lever Brothers has expended approximately $177.9 million advertising and promoting its "Shield" soap products. As a result of this substantial investment, "Shield" deodorant soap has achieved national distribution in retail grocery outlets representing 88% of domestic grocery volume, and has attained a 7.8% share of the deodorant soap market. (A112, ¶ 4)

Lever Brothers has manufactured and distributed a light duty liquid detergent on a national basis under its "Sunlight" trademarks since approximately 1979. "Sunlight"

[3] Citations to the Appendix submitted to the Court of Appeals in conjunction with Lever Brothers' application for an injunction pending appeal are designated (A[page]).



detergent is manufactured in Baltimore, Maryland, St. Louis, Missouri, and Los Angeles, California. Lever Brothers and its predecessors have applied the "Sunlight" trademarks to soap and detergent products since 1884. (A112, ¶ 5) These trademarks have been entered on the Principal Trademark Register of the United States Patent and Trademark Office as Registered Trademark Nos. 14,441, 58,465 and 1,148,608. (A165-A172) These registrations are currently in full force and effect, and were recorded with the Customs Service on October 1, 1986. (A174-A187)

Since its introduction in 1979, "Sunlight" detergent has achieved an 8.9% share of the light duty liquid detergent market. (A113, ¶ 6) Over the past six years, Lever Brothers has incurred expenditures of approximately $245.1 million advertising and promoting "Sunlight" detergent. (A113, ¶ 6)

These "Sunlight" and "Shield" products have been widely accepted by the consuming public. "Sunlight" detergent sales have increased from $8.86 million in 1981 to $94.09 million in 1985. Similarly, "Shield" deodorant soap sales have increased from $4.6 million in 1980 to $43.6 million in 1985. (A113, ¶ 7) These trademarks serve to identify Lever Brothers as the exclusive source of these high quality soap and detergent products.

**B. The "Grey Market" Products**

Lever Brothers is a wholly-owned subsidiary of Unilever United States, Inc., which is wholly-owned by Unilever N.V. ("Unilever"), a corporation organized under the laws of the Netherlands. Due to its corporate relationship with Unilever, Lever Brothers is affiliated indirectly with a number of foreign registrants of the "Shield" and "Sunlight" trademarks. Affiliated foreign manufacturers produce

"Shield" deodorant soap and "Sunlight" detergent for consumption in countries other than the United States. (A114, ¶ 8; A124-A131; A174-A187)

For example, Lever Brothers Ltd., a corporation organized under the laws of the United Kingdom, produces "Shield" and "Sunlight" products for consumption in the United Kingdom. Since approximately 1983, many importers and distributors have diverted these "Shield" products from foreign markets into the United States. Diverters have similarly imported these "Sunlight" products into the United States since at least January 1986. Lever Brothers has not sanctioned the distribution of this diverted merchandise in the United States. Due to differing material costs and market conditions, including varying currency exchange rates, this diverted "Shield" and "Sunlight" merchandise is typically less expensive than the "Shield" deodorant soap and "Sunlight" detergent manufactured by Lever Brothers. (A114, ¶ 9; A243, ¶ 11)

**C. The "Shield" and "Sunlight" Products Manufactured by Lever Brothers and its Foreign Affiliates Differ Significantly.**

While the products are facially similar, there are significant differences between the "Shield" and "Sunlight" products manufactured by Lever Brothers and its foreign affiliates. For example, the "Shield" and "Sunlight" products manufactured by Lever Brothers and its British counterpart have been specially formulated to (a) achieve optimal efficacy under differing environmental conditions, (b) satisfy the particular preferences of American and British consumers and (c) conform to differing regulatory standards. (A213, ¶ 4)

Due to higher concentrations of coconut soap and fatty acids, Lever Brothers' "Shield" deodorant soap ("US



Shield") generates a richer and more substantial lather than the "Shield" deodorant soap produced by its British affiliate ("UK Shield"). (A214, ¶ 7; A220-A225; A227-A231) In addition, US Shield contains a bacteriostat which enhances substantially the deodorant properties of US Shield by inhibiting the reproduction of bacteria. Due to differing climatic conditions and consumer preferences, UK Shield does not contain any bacteriostat. (A215, ¶ 11; A220-A225; A233) Finally, the deo-perfume formulas and colorants in US and UK Shield differ significantly. While US Shield's colorants have been certified by the Food and Drug Administration ("FDA"), the colorants in UK Shield have not been certified by the FDA.[4] (A216, ¶¶ 12, 13)

Similarly, the "Sunlight" detergent manufactured by Lever Brothers ("US Sunlight") differs substantially from the "Sunlight" detergent produced by its British affiliate ("UK Sunlight"). US Sunlight has been formulated to achieve optimal efficiency under prevailing environmental conditions in the United States. British water has a higher mineral content than the water available in most metropolitan areas of the United States. Whereas UK Sunlight performs effectively in British "hard water", US Sunlight demonstrably outperforms UK Sunlight in the "soft water" generally available in this country.[5] (A217, ¶¶ 15-18; A235-A238)

[4] UK Shield may violate a number of federal regulatory standards. UK Shield, which is labeled as a "Soap Deodorant", does not bear an ingredient statement, as required by law. 21 C.F.R. § 701.3 (1986). Moreover, the net weight statement on the UK Shield package is determined within 24 hours of manufacture. Due to moisture loss during transshipment, this net weight statement will not "accurate[ly] state[ ] . . . the quantity of the contents of the package." 21 C.F.R. § 701.13(a), (s) (1986). (A216, ¶ 13 n. 2)

[5] Lever Brothers unconditionally guarantees its "Shield" and "Sunlight" merchandise. These guarantees do not encompass its British affiliate's products. (A213, ¶ 4 n. 1)

### D. Damage to Lever Brothers and the American Consumer

The recent influx of these "grey market" products has created substantial consumer confusion respecting the origin of this merchandise, and threatens to damage irreparably Lever Brothers' reputation for the sale of high quality products. Formulated for a different market, UK Shield and Sunlight will inevitably disappoint many American consumers. The resulting injury to Lever Brothers' reputation will necessarily compromise its sales of US Shield, Sunlight and other products. (A115, ¶ 11; A243, ¶ 9)

As Ms. Eileen S. Farnham of Upper Marlboro, Maryland, wrote respecting her purchase of UK Shield:

> "I have sensitive skin and need a deodorant soap. For several years now, I have used *Shield* exclusively. I recently got a good buy at a local 'discount' chain. Bought six bars, with scarce attention to the new packaging on 'my' familiar product! This soap *can't* be my *Shield*! It smells—and is—harsh. If you've changed it, here is one emphatic vote for changing it back! Is this a 'counterfeit'? Do you formulate differently for a British market (belatedly noticed the fine print). I don't even want to use the other five bars. It's not even the same color or shape.
>
> "I'm disappointed. I feel tricked. And now I guess I have to start trying to find some other soap to like and trust."

(Copies of Ms. Farnham's letter to Lever Brothers, dated December 15, 1985, and other consumer complaint letters are reproduced at A197-A210.)

Moreover, the continuing importation of UK Shield and Sunlight has resulted in lost US Shield and Sunlight sales of at least $4,615,026.80, and $437,931.02, respectively, and deteriorating sales force morale. (A244, ¶ 12; A247-A290; A292-A294)



## Summary of the Argument

In assessing the propriety of the Customs Service regulations, this Court should consider the "grey market" scenario confronted by Lever Brothers. This "grey market" scenario serves as a prism through which the inadequacies of the regulations are clearly defined.

Lever Brothers is *not* a sales agent for a foreign manufacturer. Lever Brothers is an American manufacturer which employs domestic labor to produce high quality trademarked merchandise for distribution in the United States. The "grey market" merchandise produced by Lever Brothers' foreign affiliates is *not* substantially identical to the trademarked products manufactured by Lever Brothers. Indeed, the significant inherent differences between these products have created substantial consumer confusion which threatens to compromise the goodwill which Lever Brothers has generated in the United States.

Premised exclusively upon the corporate relationship between domestic and foreign trademark registrants, the regulations are inconsistent with § 526 of the Tariff Act and § 42 of the Lanham Act. These statutory import prohibitions clearly protect the interests of American manufacturers and domestic trademark registrants which have developed independent goodwill in the United States. The Customs Service cannot continue to ignore the interests of American manufacturers, like Lever Brothers, which have developed independent goodwill in this country. As viewed through the "grey market" scenario presented by this *amicus curiae*, petitioners can hardly deny that the regulations undermine the interests of American capital, labor and the consuming public.

## ARGUMENT

### I.

### The Customs Service Regulations Are Inconsistent with § 526 of the Tariff Act

In view of the comprehensive analysis of § 526 of the Tariff Act by the Court of Appeals for the District of Columbia Circuit and the substantial discussion of this statute by respondents, this *amicus curiae* will not belabor this Court with further detailed analysis of the statute and its legislative history. Rather, we shall briefly review the statute in the interest of supplementing respondents' analysis of § 526 of the Tariff Act.

The broad import prohibitions of § 526 cannot fairly be characterized as ambiguous. (K Mart Brief, p. 15; 47th Street Photo Brief, pp. 19-22.) Section 526 of the Tariff Act requires the Customs Service to exclude from entry into the United States any foreign-manufactured merchandise bearing a trademark registered by a United States citizen or corporation absent the domestic registrant's consent. As the Court below observed, the prohibitory terms of § 526 could not be any clearer and its "review of the circumstances prompting the enactment of Section 526 and its legislative history persuade us that the statute embodies a purpose as sweeping as the terms its drafters employed." *Coalition to Preserve the Integrity of American Trademarks* v. *United States,* 790 F.2d 903, 909 (D.C. Cir. 1986), *cert. granted,* — U.S. —, 107 S. Ct. 642 (December 8, 1986) (*"COPIAT"*). *Accord, United States* v. *Eighty-Nine (89) Bottles of "Eau de Joy",* 797 F.2d 767 (9th Cir. 1986); *Premier Dental Products Co.* v. *Darby Dental Supply Co.,* 794 F.2d 850 (3d Cir.), *cert. denied,* — U.S. —, 107 S. Ct. 436 (1986); *Vivitar Corp.* v. *United States, supra,* 761 F.2d at 1165.



While the breadth of the legislative history of § 526 has been disputed, there can be no doubt that § 526 was enacted to protect the trademark interests of American manufacturers like Lever Brothers. As the Conference Committee Report accompanying the 1922 Tariff Act observed:

> "A recent decision of the circuit court of appeals holds that existing law does not prevent the importation of merchandise bearing the same trade-mark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. *The Senate amendment makes such importation unlawful without the consent of the owner of the American trade-mark, in order to protect the American manufacturer or producer;* and the House recedes with an amendment requiring that the trade-mark be owned, at the time of the importation, by a citizen of the United States or by a corporation or association created or organized within the United States."

H.R. Conf. Rep. 1223, 67th Cong., 2d Sess. 158 (1922) (emphasis supplied).

The evolution of the Tariff Act of 1930 further confirms that the Congress intended that § 526 protect the interests of American manufacturers of trademarked merchandise. The bill proposed by the House of Representatives (H.R. 2667, 71st Cong., 1st Sess. (1929)) provided for the reenactment of § 526(a) without substantive modification. The Senate, however, proposed to modify § 526(a) by omitting the clause which permits a United States trademark owner to consent to the importation of foreign-manufactured products bearing its registered trademark. S. Rep. 37, 71st Cong., 1st Sess. 75 (1929). The proposed amendment represented an attempt to prevent American manufacturers from relocating facilities overseas and thereby displacing domestic labor.

While § 526(a) was reenacted without modification, the proposed amendment was predicated upon the assumption that § 526 inured to the benefit of all American manufacturers of trademarked merchandise and that, by deleting the "consent" clause, these manufacturers would be discouraged from relocating their facilities overseas and importing their foreign-manufactured products. As Senator George, who opposed the amendment but agreed with its proponents' interpretation of § 526, observed:

> "The section, as it exists in the present law, provides means whereby a manufacturer in this country can register his trade-mark . . . and prevent the importation of merchandise bearing an infringing trade-mark."

71 Cong. Rec. 3872 (1929).

The Congress has never intimated that an American manufacturer's affiliation with foreign trademark registrants would deprive the manufacturer of these protections. Section 526 is not so conditioned, and there is no support in the legislative history of either the 1922 or 1930 Tariff Acts which would support such a distorted interpretation of § 526 of the Tariff Act.

## II.

### The Customs Service Regulations Are Inconsistent with § 42 of the Lanham Act.

A dispositive review of the regulations may entail the consideration of both § 526 of the Tariff Act and § 42 of the Lanham Act.[6] The regulations are predicated upon

[6] The petitions for writs of certiorari submitted by the United States, 47th Street Photo, and K Mart only asked this Court to

*(footnote continued on following page)*



§ 526 of the Tariff Act and § 42 of the Lanham Act, and restrict the federal petitioners' enforcement of these import prohibitions. The regulations, therefore, may not be sustained unless they are consistent with both § 526 of the Tariff Act and § 42 of the Lanham Act.

The Tariff and Lanham Act import prohibitions do not necessarily implicate the same trademark interests. *COPIAT*, *supra*, 790 F.2d at 910 n. 10; *In re Certain Alkaline Batteries*, 225 USPQ 823 (I.T.C. 1984), *disapproved*, 225 USPQ 862, *app. dismissed sub nom. Duracell, Inc.* v. *U.S. Int'l Trade Comm'n*, 778 F.2d 1578 (Fed. Cir. 1985). Section 526 of the Tariff Act expressly prohibits the importation of foreign-trademarked products absent the consent of the domestic trademark registrant. This legislation represented the Congressional response to the continuing ratification of the principle of trademark "universality" in *A. Bourjois & Co.* v. *Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923). In *Katzel*, the Court of Appeals for the Second Circuit held that a domestic trademark registrant could not enjoin the distribution of foreign-trademarked merchandise so long as a foreign registrant had authorized the use of the trademark. Section 526 only requires that the domestic registrant be a United States citizen or corporation. The application of § 526 is not expressly conditioned upon the development of domestic goodwill or the likelihood that the foreign merchandise will create consumer confusion.

*(footnote continued from preceding page)*

consider whether the regulations were consistent with § 526 of the Tariff Act. While K Mart's petition refers obliquely to § 42 of the Lanham Act, the brief which K Mart has submitted requests that the regulations be reviewed under § 42 of the Lanham Act. (K Mart Brief, p. (i).) The briefs submitted by K Mart and 47th Street Photo have addressed this issue. (K Mart Brief, pp. 37-39; 47th Street Photo Brief, pp. 45-50.)

Section 42 of the Lanham Act, which reenacted § 27 of the Trade-Mark Act of 1905, prohibits the importation of "cop[ies]" or "simulat[ions]" of a registered trademark. This Court defined the scope of this prohibition over 60 years ago. As interpreted by this Court in *A. Bourjois & Co.* v. *Aldridge,* 263 U.S. 675 (1923), and *A. Bourjois & Co.* v. *Katzel,* 260 U.S. 689 (1923), § 27 of the Trade-Mark Act and its successor prohibit the importation of genuine merchandise bearing a domestic trademark if the domestic registrant has developed independent goodwill and the distribution of the foreign merchandise is likely to create consumer confusion. (*See* discussion *infra* at 17-20.)

Due to the limited evidentiary record developed before the District Court, this case may not afford this Court an opportunity to explore fully the trademark interests implicated by § 42 of the Lanham Act. In this case, COPIAT, a trade association comprised of numerous American trademark registrants, challenged the validity of the regulations. COPIAT did not seek declaratory or injunctive relief addressed to specific trademarked merchandise. In conjunction with its motion for summary judgment, COPIAT offered evidence which was generally limited to the parallel importation of authorized and "grey market" merchandise originating from a common foreign source. Although warranties and other ancillary services differed, the authorized and "grey market" products were substantially identical. (*See* Plaintiff's Statement of Material Facts as to Which There is No Dispute, dated April 4, 1984 ("Plaintiff's Statement"), together with Exhibits 1 through 6.)[7] Consequently,

[7] The statement submitted by Robert H. Miller, President of Charles of the Ritz Group Ltd., indicates that most of the "Opium" perfume which is distributed in the United States through authorized channels is manufactured in New Jersey. Mr. Miller, however,

*(footnote continued on following page)*



COPIAT only offered limited evidence of independent domestic goodwill and consumer confusion resulting from these "grey market" products. These "grey market" products do not adequately highlight the significant trademark interests implicated by § 42 of the Lanham Act.

This limited record may serve to distort this Court's analysis of § 42 of the Lanham Act. Indeed, K Mart's summary discussion of § 42 of the Lanham Act serves to underscore the analytical deficiencies invited by the limited record generated before the District Court in this case. Relying upon the record below, K Mart argues that "there can be no confusion of source as to parallel distribution imports, which are, by definition, manufactured and trademarked with the authorization of the trademark holders . . . [and] there can be no 'American goodwill' separate from the global goodwill which the foreign parent company has generated." (K Mart Brief, p. 38.)

"Grey market" merchandise, however, is not limited to the parallel importation of substantially identical merchandise originating from a common foreign source. The "parallel import" evidence offered by COPIAT tends to oversimplify the "grey market" and obfuscate the significant trademark interests advanced by § 42 of the Lanham Act.

*(footnote continued from preceding page)*

suggests that, while the packaging may differ, the "Opium" perfume manufactured in the United States and France are qualitatively identical. (Plaintiff's Statement, Exhibit 2, ¶¶ 5, 16.)

Similarly, the statement submitted by Pierre Valentin, Vice President and Treasurer of the Commercial Division of Michelin Tire Corporation, indicates that most of the "Michelin" tires which are distributed in the United States through authorized channels are manufactured in North America. Mr. Valentin, however, does not claim that diverted "Michelin" tires differ from those manufactured in the United States. (Plaintiff's Statement, Exhibit 4.)

The "grey market" scenario presented by Lever Brothers sharply focuses the trademark interests implicated by § 42 of the Lanham Act since it does not involve the parallel importation of substantially identical authorized and "grey market" merchandise. Lever Brothers' "Shield" and "Sunlight" products are manufactured in the United States for domestic consumption. The competing "grey market" products are manufactured overseas for foreign consumption. Lever Brothers is only affiliated indirectly with these foreign manufacturers, and has no control over their sale of "Shield" and "Sunlight" products.

Lever Brothers has clearly developed goodwill in its "Shield" and "Sunlight" trademarks which is factually distinct from the goodwill associated with those marks in foreign countries. *See Osawa & Co.* v. *B & H Photo,* 589 F. Supp. 1163, 1172-74 (S.D.N.Y. 1984). Lever Brothers has expended approximately $423 million advertising and promoting its "Shield" and "Sunlight" products in the United States over the past six years. (A112, ¶ 4; A113, ¶ 6) As a result of this substantial investment, Lever Brothers' "Shield" and "Sunlight" products have attained 7.8% and 8.9% shares of the national deodorant soap and light duty liquid detergent markets. *Id.* The American public associates these products with Lever Brothers, not with affiliated foreign registrants of the marks.

Unlike the parallel imports involved in *Vivitar, Olympus Corp.* v. *United States,* 792 F.2d 315 (2d Cir. 1986), *petition for cert. filed,* 55 U.S.L.W. 3372 (November 6, 1986) (No. 86-757), *NEC Electronics* v. *CAL Circuit Abco,* 810 F.2d 1506 (9th Cir. 1987), and this case, the "Shield" and "Sunlight" products manufactured by Lever Brothers' foreign affiliates are substantially different from Lever Brothers' "Shield" and "Sunlight" merchandise.



Indeed, the evidence offered by Lever Brothers in its action against the federal petitioners established that the "Shield" and "Sunlight" products manufactured by Lever Brothers and its British counterpart have been specially formulated to (a) achieve optimal efficacy under differing environmental conditions, (b) satisfy the particular preferences of American and British consumers and (c) conform to differing regulatory standards. Formulated for different markets, the domestic distribution of foreign "Shield" and "Sunlight" products has resulted in substantial consumer confusion and damaged Lever Brothers' reputation for the sale of high quality merchandise. By adopting a simplistic standard predicated exclusively upon the corporate relationship between the American and foreign registrants, the federal petitioners have failed to recognize that "grey market" merchandise may seriously compromise the interests of American capital, labor and the consuming public.

This simplistic corporate litmus test is inconsistent with the trademark principles espoused by this Court in *Katzel* and *Aldridge*. In *Katzel* and *Aldridge*, this Court rejected the trademark "universality" doctrine, and adopted the principle of trademark "territoriality". As the Court of Appeals observed in this case:

> "Justice Holmes' opinion adopted what has come to be called the 'territoriality' theory of trademark. This approach maintains that the source and scope of trademark protection arise from the law of a *particular* sovereign state, and thus that it is meaningless to discuss the 'genuineness' of a trademark in the abstract. *See* Note, *The Greying of American Trademarks: The Genuine Goods Exclusion Act and the Incongruity of Customs Regulations 19 C.F.R. § 133.21,* 54 Fordham L. Rev. 83, 106-109 (1986). Justice Holmes wrote:

'It is said that the trade mark here is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trade mark of the plaintiff only in the United States and indicates in law [, and, it is found, by public understanding] that the goods come from the plaintiff although not made by it.' 260 U.S. at 692 . . . ."

*COPIAT*, *supra*, 790 F.2d at 909-10 (footnote omitted; emphasis in original).

In rejecting the "universality" doctrine, this Court recognized that the protections afforded American registrants and consumers by the trademark laws do not end at our shores. The relationship between the domestic and foreign trademark registrants was not determinative. *See Original Appalachian Artworks, Inc.* v. *Granada Electronics, Inc.*, No. 86-7670, slip op. (2d Cir. April 7, 1987). The standard, as suggested by this Court in *Katzel*, was whether the domestic registrant had developed sufficient goodwill in its trademark to warrant protection under the trademark laws. Indeed, this Court expressly found that plaintiff had expended substantial resources developing goodwill in the United States:

"[Plaintiff] uses care in selecting colors suitable for the American market, in packing and in keeping up the standard, and has spent much money advertising, etc., so that the business has grown very great and the labels have come to be understood by the public here as meaning goods coming from the plaintiff."

*A. Bourjois & Co.* v. *Katzel*, *supra*, 260 U.S. at 691.

*Prestonettes, Inc.* v. *Coty*, 264 U.S. 359 (1924), does not, as suggested by petitioners K Mart and 47th Street Photo, limit the application of *Katzel* and *Aldridge* to domestic registrants which have no corporate relationship



with foreign registrants.[8] In distinguishing *Katzel*, this Court confirmed that *Katzel* served to protect the domestic goodwill represented by a trademark while insuring that the trademark would not be employed to deceive the public. As this Court explained:

"A trade-mark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of another's product as his. [Citation omitted] There is nothing to the contrary in *A. Bourjois & Co.* v. *Katzel* . . . . There the trademark protected indicated that the goods came from the plaintiff in the United States, although not made by it, and therefore could not be put upon other goods of the same make coming from abroad. When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth."

*Prestonettes, Inc.* v. *Coty*, *supra*, 264 U.S. at 368.[9]

Indeed, the federal petitioners have apparently acknowledged that the existence of "independent domestic goodwill"

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[8] *Prestonettes* was an action for injunctive relief commenced by Coty, the domestic and foreign registrant of the "Coty" and "L'Origan" marks, against a distributor which had purchased and repackaged Coty's "L'Origan" toilet powder and perfumes. In reversing an order directing the entry of injunctive relief, this Court found that defendant had not improperly used plaintiff's trademarks. Defendant's labels had merely advised the public that the contents of the repackaged merchandise originated from plaintiff. Accordingly, defendant had not misrepresented the source of the merchandise or otherwise infringed plaintiff's trademarks.

[9] In relying upon *Prestonettes*, K Mart and 47th Street Photo have failed to recognize the relationship between the foreign and domestic registrants in that action. Had this Court intended to restrict *Katzel* to so-called "independent" domestic registrants, this Court could have disposed summarily of the *Prestonettes* appeal since Coty was both the domestic and foreign registrant of the "Coty" and "L'Origan" trademarks. *See Coty* v. *Prestonettes, Inc.*, 285 F. 501, 504-5 (2d Cir. 1922), *rev'd*, 264 U.S. 359 (1924).

serves to trigger the exclusionary provisions of § 42 of the Lanham Act. As the Court below observed:

> "The appellees note that Holmes' opinion in *Katzel* (upon which *Aldridge* relied) emphasized that the plaintiff had expended considerable sums in advertising the French firm's powder, so that 'the labels have come to be understood by the public here as meaning goods coming from the plaintiff.' 260 U.S. at 691, 43 S. Ct. at 245. Thus, it is argued, *Katzel* and *Aldridge* suggest that a plaintiff must demonstrate the existence of independent domestic goodwill before he may prevail on a claim that goods bearing an identical but genuine trademark infringe his trademark, and likewise before he may demand that such goods be excluded from importation under Section 42."

*COPIAT, supra,* 790 F.2d at 910 n. 10.

The Customs Service regulations do not represent a reasoned interpretation of § 42 of the Lanham Act. As the federal petitioners have conceded previously, the existence of independent domestic goodwill, not an artificial standard premised upon the domestic registrant's corporate affiliation, should serve as the basis for excluding entry to foreign-trademarked merchandise under § 42 of the Lanham Act. Should this corporate litmus test be sustained as the basis for enforcing § 42 of the Lanham Act, domestic trademark registrants, like Lever Brothers, would be required to pursue countless infringement actions while the Customs Service continues to sanction the importation of merchandise which damages the registrants' domestic goodwill and creates consumer confusion. *See Original Appalachian Artworks, Inc.* v. *Granada Electronics, Inc., supra; Olympus Corp.* v. *United States, supra,* 792 F.2d at 320. Such a result can hardly be justified as a reasoned approach to the enforcement of domestic trademark interests.



## Conclusion

For all of the above reasons, the decision of the Court of Appeals for the District of Columbia Circuit should be affirmed.

May 7, 1987

Respectfully submitted,

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# AMICUS CURIAE
# BRIEF

(28) (22) (21)

Nos. 86-495, 86-624 and 86-625

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

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K MART CORPORATION;
47TH STREET PHOTO, INC.; and
THE UNITED STATES OF AMERICA,
*Petitioners*,
v.

CARTIER, INC.,
CHARLES OF THE RITZ GROUP, LTD., and
COALITION TO PRESERVE THE INTEGRITY
OF AMERICAN TRADEMARKS,
*Respondents*.

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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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**AMICUS CURIAE BRIEF IN SUPPORT OF RESPONDENTS BY THE FOLLOWING CORPORATIONS: THE AMERICAN CYANAMID COMPANY, THE DIAL CORPORATION, JOHNSON & JOHNSON, KENNER PRODUCTS, INC., THE PROCTER & GAMBLE COMPANY, TONKA CORPORATION, AND WARNACO INC.**

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## QUESTION PRESENTED

Does a corporation incorporated in the United States, owned and controlled by United States citizens, qualifying for protection under the literal language of § 526 of the Tariff Act of 1930, lose its right to exclude from the United States gray-market goods bearing that corporation's trademark because the corporation competes in foreign markets under the same trademark symbol?

## TABLE OF CONTENTS



## TABLE OF AUTHORITIES

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OCTOBER TERM, 1986

---

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---

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## INTEREST OF THE AMICI

The following American corporations present this *amicus curiae* brief:

The American Cyanamid Company
The Dial Corporation
Johnson & Johnson
Kenner Products, Inc.
The Procter & Gamble Company
Tonka Corporation
Warnaco Inc.

These *amici* fully support the position of respondent Coalition to Preserve the Integrity of American Trademarks ("COPIAT"), and three are members of COPIAT.

This separate *amicus curiae* brief is submitted for the sole purpose of demonstrating the error of the only argument based on the statutory text offered by any petitioners.[1] That argument is presented here for the first time by anybody, and appears in the brief of petitioner, 47th Street Photo, Inc., Brief at 19-22. The argument is this: Within the meaning of § 526 of the Tariff Act of 1930, an American corporation is not "domiciled" nor "organized" in the United States, even though incorporated in one of the states, nor is its United States trademark "owned" by the corporation if the company has foreign subsidiaries, licensees, or affiliates that compete in foreign markets under the same trademark symbol; and thus, the company does not qualify for protection under § 526 against importation of gray-market goods.

This argument, if accepted, would deny the *amici* the protection of § 526. Each is organized under the laws of a state of the United States and has its principal place

[1] Accordingly, in the service of brevity, this brief presents a statement of the argument and *amici's* refutation, avoiding extensive annotation and referring summarily to points and arguments which will necessarily be developed in detail in the parties' briefs.



of business within the United States. Each competes in the United States under a registered United States trademark. None is owned or controlled by any foreign company. Each *amicus* also conducts manufacturing or sales operations under the same trademark symbol abroad, using foreign subsidiaries, licensees, and/or affiliates. *Amici* represent major United States manufacturing operations.

The interest of the *amici*, therefore, is to support the decision of the Court of Appeals, to rebut the particular argument stated by which one petitioner seeks to overturn the Court of Appeals' interpretation of the statute, and to vindicate their right to use the same trademark symbol both in the United States and abroad while retaining their right to exclude gray-market goods under § 526.

## ARGUMENT

That trademarks are territorial and that territoriality provides important business and consumer benefits have been much discussed in this litigation.[2] This brief, to remain brief, does not replow that ground. Instead, it focuses upon a startling and novel argument, now first appearing in this case—or anywhere—that "[t]he statutory terms 'owned' and 'domiciled' should . . . be read as limiting Section 526 to truly independent American companies that are unaffiliated with foreign producers." *Brief of Petitioner 47th St. Photo* at 22.

No court, administrative agency, or scholarly commentator has ever suggested such an audacious theory. Accordingly, 47th Street Photo cites no case nor any other authority for its proposition, but weaves together

[2] *See e.g.*, COPIAT v. United States, 790 F.2d 903, 909-10 (D.C. Cir. 1986) (A registered United States trademark "is the trade mark of the plaintiff only in the United States"), *quoting* A. Bourjois & Co. v. Katzel, 260 U.S. 689, 692 (1923). Thus, when a symbol that is identical to the United States trademark is used in another country, that does not involve use of the United States trademark.

general maxims from unrelated cases to argue that the words of § 526 do not mean what they literally say.[3] The contention melts under analysis.

Section 526 extends its protection to any trademark "owned by a citizen of, or by a corporation created or organized within, the United States and registered in the Patent and Trademark Office by a person domicilied in the United States . . . ."

The terms *created or organized*, *owned*, and *domiciled* have well-understood meanings. Every law student knows what it means for a corporation to be "organized" under the laws of a state. When such a corporation also has its principal place of business in this country, no one can doubt that it is "domiciled" here. Nor can anyone doubt that, when such a company adopts a trademark and registers it, that company "owns" the trademark. The fact that a corporation may have a foreign subsidiary or affiliate cannot change this conclusion. Thus, there is no room for policy-guided interpretation to alter the literal direct meaning of the statute in the manner suggested by 47th Street Photo.

This Court has recently re-emphasized that Congress is strongly presumed to have meant what its statutes clearly say. *Amoco Products Co. v. Village of Gambell*, 107 S.Ct. 1396, 1406 (1987). And in *Rodriguez v. United States*, 107 S.Ct. 1391, 1393 (1987), this Court granted certiorari and reversed a holding of little "practical effect"

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[3] 47th Street Photo's reliance on antitrust cases is unwarranted. This Court long ago held that the concept of a conspiracy in restraint of trade, as used in Section 1 of the Sherman Act, has no clear meaning but must be explicated on a case-by-case basis under "the standard of reason." Standard Oil Co. v. United States, 221 U.S. 1, 60 (1911). Similarly, Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752 (1984), the case relied on by 47th Street Photo, interpreted a term that "lacks meaning," *id.* at 2742, and "did not import a common law tradition," *id.* at 2744 n.24.



simply because the appellate court in the reversed decision had elevated its perception of policy over statutory language and thus violated "important doctrines of statutory language and thus violated "important doctrines of statutory construction."

Because the language of § 526 has a clear meaning that does not turn on the presence or absence of foreign affiliates, it would be improper to revise that language on "policy" grounds. Moreover, the policy premise upon which 47th Street Photo argues for such interpretation is unsound. The correct policy considerations are here only summarized because without doubt they will be set out again in other briefs before this Court.

The established law in the United States is that trademarks are territorial—that is, recognized and enforced within the territory of a nation. *COPIAT v. United States*, 790 F.2d at 910. The territoriality principle allows trademark owners, like the *amici*, to compete in various foreign markets with products and marketing strategies appropriate to tastes and requirements in those markets but under the same trademark symbol as used in the United States. Among the *amici*, for example, the Dial Corporation, Johnson & Johnson, and The Procter & Gamble Company so tailor their products to local tastes and demands.[4]

An American consumer who purchases a gray-market good in reliance on the trademark may be in for a disappointment if, for example, the product has been fashioned to suit foreign tastes, quality levels, or local legal requirements. In addition to deceiving the consumer, that disappointment also unfairly injures the good-will that, with toil and coin, the American trademark owner has

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[4] *Gray Market Imports: Hearing Before the Subcommittee on International Trade of the Committee on Finance*, 99th Cong., 2d Sess., 9, 19, 69 (1986).

built up for the American trademark. That competitive injury to the trademark owner is clear where the gray-market goods are less desirable, and the customer's disappointment tarnishes the reputation of the genuinely trademarked goods. But the injury is palpable even where the gray-market goods are of comparable quality: those who deal in gray-market goods "free ride" on the good-will the legitimate trademark owner has created in the United States.

The commercial and economical reality acknowledged by territoriality is that incentives are provided within a given market area to introduce products, maintain their quality, advertise and establish distribution, service the products and their customers well and thus achieve the good-will symbolized by the trademarks. To allow others to enter a market using the trademark whose value has been created by its owner *in that market* allows the interloper a "free ride" and diminishes the incentive of trademarks.

The argument advanced by 47th Street Photo would undercut the territoriality principle by penalizing American firms for seeking to compete vigorously in foreign markets. Sound policy requires, however, that American firms be encouraged to compete vigorously both here and abroad—using foreign affiliates, subsidiaries, and licensees as business requires—without putting at risk the protection of § 526. The flat language of § 526 serves that policy.



## CONCLUSION

There is no evidence that Congress intended in § 526 of the Tariff Act to penalize American firms for competing effectively abroad. The plain language of that section provides legal support to American companies competing abroad, and that protection should not be removed upon a fanciful and late-appearing theory of statutory interpretation.

This Court should hold that § 526 means what it says and affirm.

Respectfully submitted,

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May 7, 1987

# AMICUS CURIAE

# BRIEF

(23) (23) (22)

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# Supreme Court of the United States

OCTOBER TERM, 1986

UNITED STATES OF AMERICA, *et al.*, K MART CORPORATION and 47th STREET PHOTO, INC.,

*Petitioners*,

—v.—

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, CARTIER, INC. and CHARLES OF THE RITZ GROUP, LTD.,

*Respondents*.

ON WRITS OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

## BRIEF AMICUS CURIAE OF THE UNITED STATES TRADEMARK ASSOCIATION

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18 P 12

## TABLE OF CONTENTS

## TABLE OF AUTHORITIES

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

No. 86-495

K MART CORPORATION,

*Petitioner,*

—v.—

CARTIER, INC., ET AL.,

*Respondents.*

No. 86-624

47TH STREET PHOTO, INC.,

*Petitioner,*

—v.—

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, ET AL.,

*Respondents.*

No. 86-625

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## STATEMENT OF INTEREST OF THE AMICUS CURIAE

The United States Trademark Association (hereinafter "USTA") submits this brief in support of the respondents, to urge affirmance of the opinion of the United States Court of Appeals for the District of Columbia Circuit. Consents have been granted by all parties and have been filed with the Clerk.

USTA is a not-for-profit corporation, whose members have a special interest in trademarks. They include the owners of trademarks both in this country and abroad, and lawyers, advertising agencies and other organizations knowledgeable about trademarks and having an interest in their protection. USTA's membership, which now exceeds 1800 members from 80 countries, crosses all industry lines and includes both manufacturers and retailers.[1] All share the goal of emphasizing the importance of trademarks and promoting an understanding of the essential role they play in fostering effective commerce and fair competition.

USTA was founded in 1878, in part to encourage the enactment of federal trademark legislation after this country's first trademark act was declared unconstitutional. Since that time, USTA has been instrumental in making recommendations and providing assistance to legislators in connection with each subsequent trademark act, or amendment thereof, including the current statute.

USTA serves both its members and the interests of the public by disseminating information about trademarks; by publishing books and articles about their function, protection, and proper use; by conducting seminars and other educational programs;

1 Two of the named parties in this action, petitioner K Mart Corporation and respondent Charles of the Ritz Group, Ltd., are members of USTA as is Cartier International, Inc., which we understand is related to respondent Cartier, Inc. Several members of USTA are also members of the respondent Coalition, and the law firm representing the Coalition is a USTA member as well. The named parties and attorneys representing the named parties did not participate in USTA's decision to file this brief, in formulating the opinions expressed in the brief, nor in the writing of the brief.



by maintaining a library of trademark information; and by making speakers or instructors available to civic organizations and other groups requesting information about trademarks.

The membership of USTA represents a very significant and important segment of the United States business community and has substantial expertise in trademark law. It has participated in various courts as an amicus curiae in six cases which involved vital trademark issues.[2]

Although the cases involving gray market imports, including the present case, have principally involved interpretations of the Tariff Act, rather than the Federal Trademark Act, they are of great importance to owners of United States trademarks because of their significant impact on trademark rights. Accordingly, in the past five years, USTA has presented programs featuring this subject at two annual meetings and at three seminars. It has published articles in the Trademark Reporter entitled: *The Bell and Howell: Mamiya Case—Where Now Parallel Imports?*, 74 Trademark Rep. 1 (1984); *The History and Present Status of Gray Goods*, 75 Trademark Rep. 433 (1985); and *Restricting the Gray Market in Trademarked Goods: Per Se Legality*, 76 Trademark Rep. 363 (1986), and it has established a special committee to analyze and report on the problem.

There have been at least twenty cases brought since 1982 involving parallel imports. Some, including the present cases, have involved challenges to the validity of Customs Regulations that permit entry of certain goods although not authorized by the United States trademark owner, *e.g. Olympus Corp.* v. *United States*, 792 F.2d 315 (2d Cir. 1986), *petition for cert. filed*, Nov. 6, 1986 (No. 86-757); *Vivitar Corp.* v. *United States*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 106 S. Ct. 791 (1986). Others have involved private causes of action under the Tariff Act whereby trademark owners have sought to prevent the importation or sale of goods that were not automatically excluded under the Regulations, *e.g. Epocha Distrib-*

2 For example, *Ralston Purina Co.* v. *On-Cor Frozen Foods, Inc.*, 746 F.2d 801 (Fed. Cir. 1984)

*utors, Inc.* v. *Quality King Distributors, Inc.*, No. 86 Civ. 2270 (E.D.N.Y. Jan. 21, 1987); *Osawa & Co.* v. *B & H Photo*, 589 F. Supp. 1163 (S.D.N.Y. 1984); *International Armament Corp.* v. *Matra Manurhin Int'l, Inc.*, 630 F. Supp. 741 (E.D. Va. 1986); *Premier Dental Products Co.* v. *Darby Dental Supply Co.*, 794 F.2d 850 (3d Cir.), *cert. denied*, 107 S. Ct. 436 (1986). Still others have included causes of action under the Federal Trademark Act alleging trademark infringement, *e.g.*, *NEC Electronics, Inc.* v. *Cal Circuit ABCO, Inc.*, 231 U.S.P.Q. 956 (C.D. Cal. 1986), *rev'd*, 810 F.2d 1506 (9th Cir. 1987); *Weil Ceramics & Glass, Inc.* v. *Dash*, 618 F. Supp. 700 (D.N.J. 1985), or alleging violation of 15 U.S.C. § 1124, *International Armament Corp.* v. *Matra Manurhin Int'l, Inc.*, 630 F. Supp. 741. Other actions, alleging unfair acts and unfair methods of competition, have been brought under § 337 of the Tariff Act, *In re Certain Alkaline Batteries*, 225 U.S.P.Q. 823 (Int'l Trade Comm'n 1984), *disapproved by presidential decree*, 225 U.S.P.Q. 862, *later proceeding, Duracell, Inc.* v. *United States Int'l Trade Comm'n*, 778 F.2d 1578 (Fed. Cir. 1985).

Parallel imports can involve a spectrum of corporate relationships—independent U.S. distributors having no relationship to the foreign manufacturer, *United States* v. *Eighty-Nine (89) Bottles of "Eau de Joy"*, 797 F.2d 767 (9th Cir. 1986); U.S. distributors to whom U.S. trademark rights were assigned by the foreign manufacturer with reassignment rights reserved, *Model Rectifier Corp.* v. *Takachiho Int'l, Inc.*, 220 U.S.P.Q. 508 (C.D. Cal. 1982), *aff'd*, 221 U.S.P.Q. 502 (9th Cir. 1983); a foreign manufacturer with a U.S. distributor subsidiary; a U.S. distributor and foreign manufacturer with a common parent; a U.S. distributor and foreign manufacturer with a licensing relationship, *Original Appalachian Artworks, Inc.* v. *Granada Electronics, Inc.*, No. 86-7670, slip op. (2d Cir. Apr. 7, 1987); *El Greco Leather Products Co.* v. *Shoe World, Inc.*, 806 F.2d 392 (2d Cir. 1986); a U.S. distributor and a foreign manufacturer where one has some stock interest in the other, although not a controlling one, *Bell & Howell: Mamiya Co.* v. *Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983). In some instances the United States trademark owner manufactures goods in the United States, and the gray market product is that manufactured abroad, by its foreign subsidiary and intended for distribution abroad, *In re Certain Alkaline Batteries*, 225 U.S.P.Q. 823. To complicate matters further, in some cases the goods sold by the United States trademark owner and the parallel importer have been identical, *Parfums Stern, Inc.* v. *United States Customs Service*, 575 F. Supp. 416 (S.D. Fla. 1983); in others they have been identical, but with different warranties or services offered, *Weil Ceramics & Glass, Inc.* v. *Dash*, 618 F. Supp. 700; in still others the goods have been different, *Selchow & Righter Co.* v. *Goldex Corp.*, 612 F. Supp. 19 (S.D. Fla. 1985).



No pattern has emerged from these diverse cases. Many different factual backgrounds are involved and the issues are complex. They have been the subject of extensive study by the Working Group on Intellectual Property of the Cabinet Council on Commerce and Trade. Congressional hearings involving presentation of diverse views were held in connection with the Price Competitive Products Act introduced in 1986 by Senator Chafee. Various public and private organizations have studied the problem. Numerous articles have been written about it, including Nolan-Haley, *The Competitive Process and Gray Market Goods*, 5 N.Y.L. Sch. J. Int'l & Comp. L. 231 (1984); Note, *The Greying of American Trademarks: The Genuine Goods Exclusion Act and the Incongruity of Customs Regulation 19 C.F.R. § 133.21*, 54 Fordham L. Rev. 83 (1985); Lipner, *The Legality of Parallel Imports: Trademark, Antitrust, or Equity?*, 19 Texas Int'l L.J. 553 (1984).

USTA supports the decision of the Court of Appeals for the reasons set forth in Judge Silberman's opinion. It does not at this time take a position on whether, as a matter of policy, all parallel imports should or should not be excluded. As amicus, it does not address the question of jurisdiction, or submit arguments relating to principles of statutory interpretation. However, the numerous recent cases on parallel imports, whether brought under the Tariff Act or the Trademark Act, have involved either implicitly or explicitly basic and important

trademark issues, and USTA is participating as amicus curiae so that its views can be considered on those issues.

## SUMMARY OF ARGUMENT

An interpretation of Section 526 of the Tariff Act which would bar parallel imports absent authorization of the United States trademark owner is consistent with the traditional concept that trademark rights are territorial and is further consistent with a principal purpose of the Federal Trademark Act, which is to secure to trademark owners the advantages of the reputation and goodwill they have created. Any departure from this concept should be by legislation rather than administrative interpretation.

An interpretation of Section 526 of the Tariff Act which would allow the importation of products, whatever their source, that are likely to deceive consumers as to the origin, characteristics, qualities or warranties of the imported goods is inconsistent with trademark law, in particular the concept that, to consumers, trademarks signify not only source but also product character and quality.

The claimed longevity of the Regulations in issue should not alone be determinative. The views of the Customs Service have themselves changed from time to time. And, the problem of parallel imports has resurfaced as a matter of consequence only in this decade, when factors in the international economy caused such imports to increase dramatically, generating the virtual flood of litigation that challenged the validity of the Regulations and ultimately resulted in the matter being reviewed by this Court.



## ARGUMENT

### I. Trademark Rights Are Territorial in Nature and Are Inseparable from the Goodwill They Represent

By its terms, the Tariff Act is absolute; parallel imports are barred unless the United States trademark owner has authorized importation, 19 U.S.C. § 1526. This acknowledgement of the absolute rights of a trademark owner is consistent with the principle that trademark rights are not universal, but are created and protected under the laws of individual countries. Those laws may differ. Rights in the United States, for example, are created by actual use of a trademark in commerce; in some other countries, rights are created by registration. As Judge Silberman observed, this concept of territoriality of rights was the basis for the decision of this Court in *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689 (1923). It is acknowledged in the Paris Convention for the Protection of Industrial Property, of which the United States is a signatory:

> A mark duly registered in a country of the Union shall be regarded as independent of marks registered in the other countries of the Union, including the country of origin. (Art. 6(3), 21 U.S.T. 1583, 1639, 24 U.S.T. 2140 (Presidential Proclamation of Oct. 13, 1973); T.I.A.S. Nos. 6923, 7727).

Substantial investments have been made and marketing policies based on this concept of national protection. It has been argued that the concept should take second place generally to a policy of encouraging free trade among nations and should not be considered when there is a relationship between the companies owning rights in this country and in other countries. The issues involved in striking a balance between these countervailing viewpoints are complex and significant.

It is also a basic concept that trademarks do not exist in a vacuum. They are not rights in gross, but exist only in connection with the trade in the goods on which they appear, and are thus inseparable from the goodwill they represent. *Mishawaka Rubber & Woolen Mfg. Co.* v. *S.S. Kresge Co.*,

316 U.S. 203 (1942); Schechter, *The Rational Basis of Trademark Protection*, 40 Harv. L. Rev. 813 (1927). Goodwill, in turn, consists of many intangibles, including the expectations created in consumers which allow them to make repurchase decisions based upon their past experience with the trademarked products.

The protection of this goodwill is a basic purpose of trademark legislation, as acknowledged in House of Representatives Report No. 219 accompanying H.R. 1654, Feb. 26, 1945:

> The purpose underlying any trade-mark statute is twofold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats. This is the well-established rule of law protecting both the public and the trademark owner.
>
> * * *
>
> Trade-marks, indeed, are the essence of competition, because they make possible a choice between competing articles by enabling the buyer to distinguish one from the other. Trade-marks encourage the maintenance of quality by securing to the producer the benefit of the good reputation which excellence creates. To protect trademarks, therefore, is to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and goodwill by preventing their diversion from those who have created them to those who have not. This is the end to which this bill is directed.

*Id.* at 2, 3.

Petitioner K Mart has asserted that the cases before this Court involve companies that "sell identical trademarked products globally." Parallel importation, however, may arise in



various contexts. As previously pointed out, in some instances, identical products, manufactured abroad, are imported and sold here by the United States trademark owner and by the parallel importer. In other instances, goods manufactured in or for sale in the United States differ from those manufactured for sale abroad because of different local tastes, custom, or even local legal requirements. In other instances, even where the products are the same, the accompanying warranties and services supporting the product differ.

To the extent that parallel imports differ in quality or characteristics from goods sold in this country under the same trademark, allowing the unrestricted importation and sale of such goods does violence to the quality-identifying function of a trademark, and damages the goodwill represented by the trademark.

The more complex issue is whether an independent goodwill can exist and be protected against misappropriation (a second expressed aim of the Federal Trademark Act) if the product sold by the parallel importer is of the same quality as that sold by the United States trademark owner. Case law, including *Weil Ceramics & Glass, Inc.* v. *Dash*, 618 F. Supp. 700, has recognized and protected such independent goodwill. This issue, however, is the subject of fierce debate. Any tension between the aim of the trademark laws and the government's trade policies should not be resolved by administrative interpretation of a statute which, on its face, does not permit importation of such goods without consent of the United States trademark owner.

## II. The Absence of a Challenge to the Customs Regulations Prior to 1982 Should Not Alone be Determinative

Although Customs' interpretation of Section 526 has been in place for many years, its longevity and freedom from attack may rest not on the fact that Customs' interpretation is correct, but on the fact that parallel imports have not resurfaced as a significant problem for United States trademark owners until recently, coinciding with the strength of the dollar

abroad. Thus, apart from *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689, and related cases brought in the 1920's, and the *Guerlain* case of 1957,[3] the numerous other cases brought under the Tariff Act, or under the Lanham Act, have been brought since 1982, when the problem became acute.

Nor has the position of the Customs Service been as consistent as urged by petitioners. Judge Winter, writing for the dissent in *Olympus Corp.* v. *United States*, noted that "the history of the regulation itself reflects the Customs Service's own confusion over the purpose and validity of the regulation. . . . The fact is that the Customs Service has over the years justified this regulation with arguments of opportunity tailored to whatever audience it happened to be addressing at the time," 792 F.2d at 322. Judge Nies in *Vivitar Corp.* v. *United States* likewise found that "[o]ur review . . . indicates that Customs has had and continues to have changing views *of the role of Customs* in enforcing § 1526(a) on behalf of owners of registered U.S. trademarks. . . ," 761 F.2d at 1565.

In February, 1983, the United States, through its then Assistant Attorney General William F. Baxter and Richard Abbey, Chief Counsel of the United States Customs Service, filed a Brief Amicus Curiae in the Court of Appeals for the Second Circuit in *Bell & Howell: Mamiya Co.* v. *Masel Supply Co.*, 719 F.2d 42. In that Brief, the Government advocated the position now taken by the respondents in the present case. It argued as follows:

1. "Neither the literal language of the Lanham Act, nor the policies underlying our trademark laws, support Masel's attempt to distinguish among holders of United States trademarks based on their relationship to the producer of the trademarked item."[4]
2. "Our experience, responsibility and interest . . . is related to the trademark and antitrust issues raised by this case which in our opinion should not turn on the nature of the relationship between Mamiya Co. and BHMC."
3. "But neither the legislative reports nor the congressional debate contain any clear evidence of a legislative intent to deny trademark protection where the owner of the U.S. mark is owned or controlled by the foreign manufacturer of the trademarked goods."
4. "Masel argues that because their products are genuine Mamiya cameras produced by the same manufacturer as BHMC's Mamiya products, there is no consumer confusion and thus no trademark infringement . . . . This argument ignores the Lanham Act's goal of protecting the goodwill and investment of the owner in a mark, and was rejected by the Supreme Court in *Bourjois* v. *Katzel*, 260 U.S. 689 (1923)."
5. "[W]hether the trademark owner is vertically related to the manufacturer is irrelevant as a matter of trademark law and policy. And, although the American trademark owner in *Bourjois* paid for good will already developed by the French manufacturer, here BHMC has paid for the good will of the "Mamiya" mark through its own investment in promoting the mark. Both types of investments are properly protected under the trademark laws."
6. "Indeed, the legislative history of the Lanham Act reflects a legislative determination that protection of investments in good will and product quality as well as preventing consumer deception were statutory goals."

We mention this history not to be critical of the Government's about-face but as a demonstration of the complexity of the issues involved. The history of views expressed by Customs and the various and diverse interpretations of the statute by the numerous courts that have recently addressed the issue dramatically emphasize that this is an issue that should not be resolved by administrative interpretation, particularly an interpretation at odds with the plain language of the statute being interpreted.

3 *United States* v. *Guerlain, Inc.*, 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded*, 358 U.S. 915 (1958), *dismissed*, 172 F. Supp. 107 (S.D.N.Y. 1959).

4 In this case, Masel was the parallel importer, Mamiya Co. was the foreign manufacturer, and BHMC was the United States distributor.

There are potentially conflicting business, consumer and public policy questions raised by the parallel imports problem. The stakes are very high. The issues are very complex. There is a statute that, on its face, appears to bar all parallel imports absent consent of the United States trademark owner.

## CONCLUSION

It is USTA's position that this problem is too important and too complex to be resolved by Customs interpretation or by a court speculating on the intention of the draftsmen of the original Tariff Act or on the intentions of those who subsequently amended or failed to amend it. Whether parallel imports should or should not be allowed, and under what conditions, should be a matter for the legislature, and should involve an analysis of all legal, economic, and policy issues including those recognizing the importance of protecting trademarks and the goodwill they embody.

USTA therefore submits that the decision of the Court of Appeals should be affirmed, with the aim of having this problem resolved through the legislative process.

Respectfully submitted,

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IN THE

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*Respondents*.

## CERTIFICATE OF SERVICE

I hereby certify that on this ____ day of May, 1987, three copies of the within Brief Amicus Curiae of the United States Trademark Association were served by first class mail postpaid on each of the following: Charles Fried, Solicitor General, U.S. Department of Justice, Washington, D.C., 20530, attorneys for the federal Petitioners; Robert W. Steele, Steele, Simmons & Fornaciari, Suite 850, 2020 K Street, N.W., Washington, D.C. 20006-1857, attorneys for Petitioner K Mart Corporation; Nathan Lewin, Miller, Cassidy, Larroca & Lewin, 2555 M Street, N.W., Suite 500, Washington, D.C. 20037, attorneys for Petitioner 47th Street Photo, Inc.; and William H. Allen, Covington & Burling, 1201 Pennsylvania Avenue, N.W., P.0. Box 7566, Washington, D.C. 20044, attorneys for Respondents.

I further certify that all parties required to be served have been served.

Marie V. Driscoll

# AMICUS CURIAE

# BRIEF

(24) (24) (23)

Nos. 86-495, 86-624, and 86-625



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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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## AMICUS CURIAE BRIEF OF DURACELL INC. IN SUPPORT OF RESPONDENTS

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## TABLE OF CONTENTS

TABLE OF CONTENTS—Continued





TABLE OF AUTHORITIES

TABLE OF AUTHORITIES—Continued



IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

---

Nos. 86-495, 86-624, and 86-625

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## AMICUS CURIAE BRIEF OF DURACELL INC. IN SUPPORT OF RESPONDENTS

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## STATEMENT OF INTEREST

Duracell Inc. ("Duracell") is a U.S. (Delaware) corporation and wholly-owned subsidiary of Kraft, Inc., also a U.S. (Delaware) corporation, and is a member of the Coalition to Preserve the Integrity of American Trademarks ("COPIAT").[1] In the United States, Duracell

[1] All parties have consented to Duracell filing an amicus curiae brief. Duracell has submitted these consents to the Clerk.

employs more than 4,000 workers in nine states to manufacture and distribute, under the U.S. DURACELL trademark, alkaline batteries that are specifically geared to the American consumer. Duracell's position illustrates clearly the erroneous premise, upon which respondents and supporting amici base their assertions, that the regulations at issue here affect only foreign manufacturers and do not harm domestic corporations. Duracell is a domestic corporation and manufacturer who has long been adversely affected by gray market trade.

**1. Duracell's early efforts to protect its goodwill as a domestic manufacturer**

Duracell has spent hundreds of millions of dollars advertising and promoting its brand in the United States and developing the domestic goodwill that U.S. consumers associate with the DURACELL mark.[2] In early 1982, Duracell became aware that unauthorized importers were selling in this country foreign-made DURACELL batteries designed for sale in Europe. Duracell does not intend, sponsor or authorize the importation for sale of these foreign-made alkaline DURACELL batteries into the United States. Foreign DURACELL batteries, manufactured abroad by Duracell affiliates, bear DURACELL trademarks with foreign registrations and are intended for distribution and sale only in foreign markets served by such affiliates.

With the rising strength of the dollar in the early 1980s, importers found it profitable to purchase foreign DURACELL batteries from foreign customers of Duracell and then import and distribute them in this country.[3] (Even as the dollar fluctuates in strength today, there are still opportunities for currency arbitrage which makes it profitable for gray marketers to continue this practice; for example, the dollar is today relatively strong against the Mexican peso, Italian lira, and Canadian dollar.) Duracell has thousands of customers throughout Europe alone; it is impossible to monitor the movement of DURACELL batteries in such a market. Duracell is and has been greatly concerned about this problem, particularly because its reputation for high-quality fresh *American-made* batteries with complete English language warnings, instructions, and guarantees is endangered by importers and distributors over whom it has no control. Duracell has, however, been unable to resolve the problem because of the regulations at issue here.

[2] Duracell is the exclusive owner of the DURACELL trademark as well as THE COPPER TOP BATTERY trademark and the copper and black color combination on the battery jacket. Duracell's emphasis of those marks in its extensive broadcast (television and radio) and print (magazine and newspaper) advertising campaigns has created a strong association by U.S. consumers of the marks with a reputation for batteries that are long lasting and dependable.



In 1983, Duracell attempted to block the unauthorized imports by filing its registered U.S. trademark DURACELL with the U.S. Customs Service pursuant to section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526 ("section 526"). The Customs Service informed Duracell that it would not exclude imports of products bearing the DURACELL trademark that were manufactured by Duracell's foreign subsidiaries, citing 19 C.F.R. § 133.1 ("the Treasury regulations").

Duracell next tried to enforce its trademark rights in private actions. This proved to be difficult, expensive and very time consuming. It was impossible for Duracell to identify all of the importers and distributors as they do not obtain the batteries directly from Duracell's affiliates but, rather, purchase them through a sometimes lengthy chain of middlemen. Initially, Duracell did file suits against two importers in federal district court in the Southern District of New York. Those suits were settled

[3] *See In re Certain Alkaline Batteries*, 225 U.S.P.Q. 823, 826 (U.S.I.T.C. 1984).

when the two named importers agreed to stop importing the foreign DURACELL batteries. The settlements in no way stemmed the tide, however, as other importers more than picked up the slack. Furthermore, one of these importers has reneged on his agreement, forcing Duracell to expend more time and money pursuing a civil contempt order.

2. *In re Certain Alkaline Batteries*

To protect its trademarks, its business reputation, and U.S. consumers, Duracell next approached the International Trade Commission ("ITC") because section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, authorizes that agency to exercise *in rem* jurisdiction and to issue a general exclusion order that can operate against all imports. Duracell believed its case to be well suited to that forum because it could meet the stringent standard of proof required. With Duracell as complainant and 14 importers as respondents, the ITC embarked on an investigation that lasted over a year. Extensive discovery was taken and a week-long evidentiary hearing took place before an administrative law judge who issued an initial determination, based on his findings of fact and conclusions of law, in Duracell's favor. A hearing before the entire Commission was held in October 1985 and included argument on behalf of the Treasury Department, K mart Corporation, 47th Street Photo and a number of amici in this case.

The ITC unanimously concluded that imports of foreign DURACELL batteries constitute unfair competition and violate section 337. *In re Certain Alkaline Batteries*, 225 U.S.P.Q. 823 (U.S.I.T.C. 1984).[4] The agency issued a general order excluding all foreign DURACELL batteries from entry into the United States. *Id.* at 839.

[4] As to the application of section 526 to imports of foreign DURACELL batteries, the ITC ruled by a 4-1 majority that such imports do not violate section 526. 225 U.S.P.Q. at 832; *but see id.* at 841-42 (additional views of Vice Chairman Liebeler).



Duracell had conclusively proven that it is a U.S. industry, efficiently and economically operated, which is being substantially injured by the importation and sale of foreign DURACELL batteries that infringe Duracell's U.S. trademark and misappropriate its trade dress. The trademark infringement conclusion was twofold: foreign DURACELL batteries violate the trademark territoriality principle as a matter of law and create a likelihood of confusion with domestic DURACELL batteries as a matter of fact. *Id.* at 826-32, 834-37. Additionally, the ITC found that the public interest favored imposition of the exclusion order. *Id.* at 840-41. In this latter regard, Duracell proved that *no part of the importers' savings in gray market DURACELL batteries is passed on to U.S. consumers. Id.* at 826 and n.10.

The ITC exclusion order was referred to President Reagan pursuant to section 337's mandatory review provision. The President disapproved the order, relying on two stated reasons: (1) the ITC order was inconsistent with Treasury regulations and (2) his Cabinet Council on Commerce and Trade was reviewing data "with a view toward formulating a cohesive [gray market] policy." 50 Fed. Reg. 1,655 (January 11, 1985), *reprinted in* 225 U.S.P.Q. 862.[5]

[5] Duracell appealed the disapproval to the United States Court of Appeals for the Federal Circuit, contending that the President exceeded the authority section 337 delegated him. Section 337 permits the President to disapprove an ITC order "for policy reasons." 19 U.S.C. § 1337(g). Duracell argued that the President disapproved its exclusion order because he disagreed with the ITC's legal conclusion that gray market DURACELL batteries could constitute unfair competition. The President, however, may not disapprove a § 337 determination on legal grounds. S. Rep. No. 1298, 93d Cong., 2d Sess. 199, *reprinted in* 1974 U.S. Code Cong. & Ad. News 7186, 7331-32; *Young Engineers, Inc. v. U.S.I.T.C.*, 721 F.2d 1305, 1313 (Fed. Cir. 1983). The Federal Circuit held that it had no jurisdiction over Duracell's appeal and, in the alternative, that it would accept the President's statement that he had disapproved pursuant to section 337(g). *Duracell Inc. v. U.S.I.T.C.*, 778 F.2d 1578 (Fed. Cir. 1985).

Duracell supports respondents' contention that the Treasury regulations are an invalid interpretation of section 526 (and section 42 of the Lanham Act, 15 U.S.C. § 1124) and unlawfully restrict the scope of that statute. Duracell believes that presentation of its position as a U.S. manufacturer substantially injured by gray market trade will help the Court resolve the questions presented by the parties.

## SUMMARY OF ARGUMENT

1. The Treasury regulations adversely affect American manufacturers like Duracell who employ U.S. workers by discouraging domestic production.

2. The Treasury regulations are not reasonably related to section 526 because they contravene the statute's plain language and deny protection to American manufacturers like Duracell who undisputedly belong to the intended protected class.

3. The Treasury regulations must be invalidated because they contravene section 526 and cannot be justified as merely an enforcement policy of the Customs Service. Judicial enforcement of section 526 on a case-by-case basis would be futile and burdensome.

4. The gray market in foreign DURACELL batteries, which discourages U.S. production and U.S. investment, does not benefit consumers who pay the same price for a foreign DURACELL battery as for a domestic DURACELL battery. Restrictions on the gray market present no antitrust problem.

5. The Administration's "ongoing policy review" does not militate against judicial resolution of the validity of the Treasury regulations because the regulations have a present, concrete, and adverse impact. Further the "policy review" has been pending for some time and there are no indications that a conclusion is forthcoming.



## ARGUMENT

### I. THE DEPARTMENT OF TREASURY REGULATIONS ADVERSELY AFFECT DOMESTIC MANUFACTURING OPERATIONS

#### A. Petitioners Err When They Assert That The Treasury Regulations Affect Only Foreign Corporations

Petitioners consistently aver that the Treasury regulations' "related parties" exception to section 526 restricts only "foreign" corporations. That is an inaccurate portrayal of the scope of those regulations.

A review of petitioners' remarks demonstrates that the primary basis for this position is their presumption that U.S. industry is not affected by gray market importations pursuant to the Treasury regulations. The government argues that "Congress did not intend to create a mechanism to help foreign or multinational firms enforce exclusive U.S. distribution arrangements." Brief for the Federal Petitioners at 8. Petitioner 47th Street Photo, Inc. advocates that section 526 "require[s] something more than the creation by a foreign corporation of an American shell." Brief for 47th Street Photo, Inc. at 6. And, finally K mart Corporation broadly claims that this case is about foreign companies—"[i]t is not about protecting American manufacturing industries." Brief for K mart Corporation at 7.

Both K mart and 47th Street Photo focus on the court of appeals' omission of certain words from the conference report on the 1922 enactment of section 526. They emphasize that the conference report states section 526 makes "such importation unlawful without the consent of the owner of the American trademark in order to protect the American manufacturer or producer." H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922) *quoted in* Brief of 47th Street Photo at 47 and Brief of K mart at 20. Yet it is just such protection of the American manufacturer—a rationale upon which petitioners agree

Congress premised section 526—that the regulations at issue deny to Duracell and similarly-situated trademark owners.[6]

**B. Duracell, By Any Standard, Is An American Manufacturer**

Duracell Inc. is a U.S. (Delaware) corporation. Far from a "shell" created by a foreign company, Duracell employs more than 4,000 workers in nine states to manufacture and distribute alkaline batteries designed especially for U.S. consumers. As the International Trade Commission found, every sale of a gray market DURACELL battery is a lost sale for Duracell's U.S. operations. 225 U.S.P.Q. at 838. Thus, the continued importation of gray market DURACELL batteries will result in further substantial injury to Duracell as an American manufacturer.[7] Certainly, Duracell could relocate abroad its U.S. manufacturing operations to attempt to benefit from lower production costs. Such a development, however, highlights the irony that results from petitioners' position that the Treasury regulations must be upheld. That Duracell has subsidiaries selling overseas batteries that are manufactured overseas should not affect the status of Duracell's U.S. manufacturing operations. It has been Duracell's long held business policy to manufacture its batteries in the locales in which they are to

[6] Other American corporations with U.S. manufacturing operations, some of which are also filing amicus briefs in this case, are affected by unauthorized imports. The term "parallel imports" used by petitioners is a misnomer in cases such as Duracell's. The gray market goods are not parallel imports because they are the only imports—there are no authorized imports. Sales of gray market goods displace sales of American-made goods, not other foreign goods.

[7] Additionally, Duracell's goodwill which associates the DURACELL mark with fresh quality American-made goods is endangered by the sale of gray market DURACELL batteries whose shipping to and handling in this country are out of Duracell's control.



be sold. Duracell should not be penalized for that decision.

Duracell's position as an American manufacturer unable to invoke the protections of section 526 because of the challenged regulations illustrates the flaw in petitioners' analysis. Petitioner 47th Street Photo contends the regulations ought to stand because they effect the intent of Congress that the party invoking section 526 be "both an American corporation and a domiciliary of the United States." Brief of 47th Street Photo at 19. Duracell is undeniably "both" yet the Treasury regulations deny Duracell the lawful protection to which it is entitled.

## II. THE DEPARTMENT OF TREASURY REGULATIONS ARE NOT REASONABLY RELATED TO SECTION 526

### A. Even If Section 526 Were Intended To Protect American Manufacturers Only, The Regulations Deny That Protection

Section 526 clearly prohibits the importation of foreign-made merchandise bearing a registered trademark owned by a U.S. citizen and domiciliary without written consent of the trademark owner. Implicitly admitting that the Treasury regulations contravene the plain and unambiguous statutory language, petitioners contend primarily that the regulations are valid as being reasonably related to the intent of Congress to protect American industry. In particular, petitioners seem to suggest that through the regulations, Customs implements a flexible enforcement policy that reasonably tailors section 526 enforcement to the facts of each case.

This is emphatically neither the intent nor the result of the Treasury regulations. The regulations blanketly deny section 526 protection in any case where the U.S. trademark owner is in any way related to the foreign

manufacturer. As Customs' denial of protection to Duracell establishes, even when an American manufacturer requests enforcement of section 526—a request from the party specifically entitled to relief under petitioners' analysis—Customs will automatically deny relief. There is no hearing to determine the merits of the case, no examination of whether the regulations as applied will carry out the statute's intent. In short, there is no flexible policy but, rather, an unbending adherence to regulations which contravene the statute's plain words and even, as defined by any party, the statutory intent.

### B. In Any Event, Section 526 Should Be Construed As It Is Written

Statutory language that is plain and unambiguous is conclusive. In such a case, rules of construction are not applicable because congressional intent is apparent from the statute itself. *See Garcia v. United States*, 469 U.S. 70, 75 (1984); *United States v. Turkette*, 452 U.S. 576, 580 (1981); *Howe v. Smith*, 452 U.S. 473, 483 (1981); *Tennessee Valley Authority v. Hill*, 437 U.S. 153, 184 n.29 (1978). In this case, the language of section 526 is plain and unambiguous; legislative intent is easily divined from the statutory words. Importantly, however, as the court of appeals concluded: "[T]his case does not compel [a choice] between the 'plain meaning' of a statute and extrinsic indicia of intent: . . . the circumstances prompting the enactment of Section 526 and its legislative history persuade us that the statute embodies a purpose as sweeping as the terms its drafters employed." *COPIAT v. United States*, 790 F.2d 903, 909 (D.C. Cir. 1986).

#### 1. The statutory language is clear

In attempting to obscure the plain meaning of the statutory language, petitioners are unable to confront a major flaw in their analysis. There can be no dispute



that section 526 is clear, plain, and easy to understand.[8] Importations of goods bearing a registered trademark owned by a U.S. citizen are prohibited unless the trademark owner consents. The drafters employed no equivocal or obtuse language, no difficult to understand words. Thus, the words of section 526 are to be given their usual, ordinary, and common meaning. *Russello v. United States*, 464 U.S. 16, 21 (1983) (quoting *Richards v. United States*, 369 U.S. 1, 9 (1962) ("assumption that the legislative purpose is expressed by the ordinary meaning of the words used")). Only in "rare and exceptional" cases where the literal meaning of a statute would lead to consequences so "absurd" and "gross" as to "shock the general moral or common sense" should the plain language of a statute be rejected. *Crooks v. Harrelson*, 282 U.S. 55, 59-60 (1930).[9]

[8] Section 526(a) provides:

> Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, . . . and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, . . . unless written consent of the owner of such trademark is produced at the time of making entry.

19 U.S.C. § 1526(a) (1982).

[9] *Accord Griffin v. Oceanic Contractors*, 458 U.S. 564, 575 (1982) (many laws are "enacted with good intention, [but] when put to the test frequently, and to the surprise of the law maker himself, turn out to be mischievous, absurd or otherwise objectionable"; in such instances "the remedy lies with the law making authority, and not with the Courts"); *United States v. M/V Big Sam*, 693 F.2d 451, 455 (5th Cir. 1982) (*en banc*), *cert. denied*, 462 U.S. 1132 (1983) (while statutes should be interpreted to avoid untenable distinctions and unreasonable results where possible, it is improper "to re-write, in the guise of statutory construction, unambiguous statu-

The Treasury regulations unlawfully restrict the scope of the plain meaning of the statute. There is nothing in section 526 suggesting that only certain U.S. trademark owners may benefit from its protection. To the contrary, section 526 is worded so as to give protection to any U.S. trademark owner. Petitioners cannot, and do not even attempt to, argue that protection of all U.S. trademark owners would be so "gross as to shock the general moral or common sense." Instead, they argue simply that the literal language of section 526 is unreasonable. Plain statutory language may not, however, be ignored on that basis.

**2. *A. Bourjois & Co. v. Katzel* supports the plain meaning of section 526**

Petitioners deny the broad import of the section 526 language by arguing that (1) section 526 resulted only from congressional disapproval of *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), and therefore (2) section 526 applies only to a factual situation identical to that presented in *Katzel*.

This Court's reversal of the appellate court's *Katzel* decision illustrates the fallacy of petitioners' argument. If petitioners were correct that the legislative reaction to the appellate court decision is limited only to the certain specific facts allegedly at issue, that is, an independent company's claim of fraud, then this Court's *Katzel* opinion would likewise evidence that the principles enunciated therein were also limited to those certain specific facts. Justice Holmes' opinion does not, however, create such a limitation.

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tory language in order to cure what . . . seems to be statutory deficiencies"); *United States v. Shirah*, 253 F.2d 798, 800 (4th Cir. 1958) (when legislature confers benefits upon a statutory class, it is for the legislature, not the courts, to mandate an inquiry whether a particular member of the class deserves such benefits); *see also Tennessee Valley Authority v. Hill*, 437 U.S. 153, 184 n.29 (1978) (only a challenge that result reached is "absurd" necessitates going beyond plain unambiguous statutory language).



In *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923), this Court followed the principle of trademark territoriality in holding that the owner of a French trademark may not introduce goods into U.S. commerce bearing a foreign trademark identical to a U.S. trademark on like goods. In a key conclusion, Justice Holmes stated, "It is the trademark of the plaintiff only in the United States and *indicates in law*, and, it is found, by public understanding, that the goods come from the plaintiff although not made by it." 260 U.S. at 692 (emphasis added). Thus, the Court focused on the independent significance of a trademark under the law of each country. *See Roger & Gallet v. Janmarie, Inc.*, 245 F.2d 505, 510 (C.C.P.A. 1957) (because a trademark symbolizes the goodwill developed in each country, trademark rights are enforced under the law of each country; it is "axiomatic" that neither U.S. nor foreign trademark law has any extraterritorial effect). Just as the record in Duracell's ITC case proved, a business can develop separate goodwills to back its products in different countries. As in Duracell's case, investment through production, advertisement, and marketing of locally made goods can create an independent goodwill associated with the trademarked product in each country.

Petitioners, notably K mart, suggest that the *Katzel* holding was limited to "'contrivance[s] for the purpose of evading the effect of the transfer' of trademark rights." Brief of K mart at 19 (quoting 260 U.S. at 691). Yet K mart omits noting that the Court continued on to say that no such contrivance existed in *Katzel*. The *Katzel* holding was explicitly based on the broader recognition that the ownership of the U.S. trademark "indicates in law" that the goods come from the domestic trademark owner. 260 U.S. at 692.

Such a broad holding was not dependent on the identity of the U.S. trademark owner as an independent company that had purchased trademark rights from a for-

eign manufacturer. Even if, in the words of petitioner 47th Street Photo, *Katzel* applies only when the U.S. trademark owner has "develop[ed] an American identity distinct from that of the foreign trademark owner," Brief of 47th Street Photo at 26, such separate goodwills can and do exist with respect to related companies, as Duracell's case demonstrates.

Although *Katzel's* articulation of the trademark territoriality theory was not a construction of section 526, it illustrates petitioners' erroneous assertion that section 526, as a reaction to the Second Circuit's decision, was limited only to the specific facts presented in that case. Such a limitation is not apparent in this Court's *Katzel* holding which, obviously, resulted from the Second Circuit's decision.

## III. THE DEPARTMENT OF TREASURY REGULATIONS MUST BE INVALIDATED

### A. Inconsistency With Section 526 Requires Invalidation

Because the Treasury regulations deny protection to U.S. trademark owners entitled to it, these regulations must be invalidated. Deference to an agency's interpretation of a statute is appropriate only where the statute does not make plain the intent of Congress. *Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 843 (1984); *Federal Election Comm'n v. Democratic Senatorial Campaign Comm.*, 454 U.S. 27, 31-32 (1981). In *Chevron*, this Court stated that it "must reject administrative constructions which are contrary to clear congressional intent." 467 U.S. at 843 n.9. The statute here specifically calls for exclusion by the Customs Service of any good bearing a trademark owned by an American citizen. Congress intended that such importation be prohibited. The Treasury regulations, in contravention of the statute, permit such importation. Consequently, the regulations must be invalidated.



### B. Judicial Enforcement Of Section 526 Through Case-By-Case Adjudication Would Be Futile And Burdensome On The Judiciary

The Federal Circuit Court of Appeals in *Vivitar v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), while agreeing that the Treasury regulations do not properly interpret section 526, let the regulations stand as a permissive exercise of Customs' enforcement discretion. 761 F.2d at 1569-70. Yet that has never been Customs' basis for the regulations. "From the start, the Customs Service has regarded the regulations as its interpretation of what the law requires rather than as a decision not to prosecute the letter of the law." *COPIAT v. United States*, 790 F.2d at 918. The *Vivitar* court suggested that a trademark owner, unable to obtain through the Customs Service relief from unlawful importations, could go into federal district court to seek a "private remedy." 761 F.2d at 1570. Such limited relief denies the realities of the gray market.

The experience of Duracell proves that the "private remedy" does not work. Duracell long ago filed section 526 actions in federal district court in New York. The named defendants entered into a consent decree in which they agreed not to import foreign DURACELL batteries. These agreements have proved meaningless as other unauthorized importers move right into the market. Additionally, it is difficult, sometimes impossible, to ascertain who the importers are. In contrast to the *in rem* exclusion of unlawful imports that the Customs Service should automatically provide pursuant to section 526, case-by-case judicial enforcement would be of little value to the U.S. trademark owner who continually would have to file suit after suit in federal district court (that is, if the

trademark owner is able first to discover the importers' identities).

Moreover, this Court can easily see the burden that such enforcement would place on the federal judiciary. Especially in contrast to the statutory scheme which requires automatic Customs exclusion and, thus, no judicial involvement, case-by-case adjudication would result in increased case loads for the district courts as many trademark owners would file suits against even more importers.

## IV. POLICY FACTORS SUPPORT INVALIDATION OF THE TREASURY REGULATIONS

The issue before this Court is whether the Treasury regulations correctly interpret section 526 as a matter of law. To the extent petitioners contend that public policy supports the regulations, Duracell submits their basic premises are erroneous.

First and foremost, the record in the Duracell case established that "retail stores sell foreign DURACELL batteries at the same retail price as domestic DURACELL batteries." 225 U.S.P.Q. at 826. Petitioners' argument that the gray market always provides substantial savings to U.S. consumers is incorrect. Instead, Duracell can show and has shown that the unauthorized importers and distributors are pocketing the savings they receive from buying foreign DURACELL batteries in foreign markets.

Second, petitioners fail to recognize that enforcement of section 526 encourages U.S. production and U.S. investment in the goodwill behind the product. Duracell invests over fifty million dollars a year in creating and promoting the goodwill that stands behind the U.S. DURACELL mark. Gray market traders, in importing and distributing foreign DURACELL batteries are able



to free ride[10] on that goodwill at the same time they are endangering the "Americanness" the DURACELL mark symbolizes to the U.S. consumer.

Third, the argument of petitioners and supporting amici that gray market import restrictions are inconsistent with federal antitrust policy is without merit. Petitioner K mart's analysis that such restrictions constitute horizontal market division which per se violates the antitrust laws misreads *United States v. Sealy, Inc.*, 388 U.S. 350, 352-54 (1967) and *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1951) both of which involved restraints that were unmistakably horizontal.[11] Further, K mart ignores the application of *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984), where this Court held that a parent corporation and its wholly-owned subsidiaries cannot conspire under section 1 of the Sherman Act, 15 U.S.C. § 1.

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[10] Petitioner argues that since a purchase somewhere down the chain was originally made from the subsidiary of the trademark owner, no "free ride" exists. But that foreign purchase, even independent of currency fluctuations, would be at a price that took into account the creation of foreign goodwill, *not* the goodwill associated with the U.S. trademark. To the extent that U.S. goodwill was more costly, *e.g.*, higher advertising costs, the gray marketer is free riding by paying only for the foreign goodwill yet selling the product under U.S. goodwill. *See, e.g.*, Miller, "Restricting the Gray Market in Trademarked Goods: Per Se Legality," 76 *Trademark Rep.* 363, 373-75 (1986).

[11] In *Sealy*, the Court expressly observed that the district court had found that analyzing the substance of the transaction, there was no doubt that Sealy was controlled by its licensing competitors and that the territorial arrangements at issue were the product of a horizontal arrangement. 388 U.S. at 352-53. In *Timken Roller Bearing Co.*, the Court concluded that the trademark provisions were a sham such that the territorial allocation applied whether or not products were trademarked and that they were "an aggregation of trade restraints" which violated the Sherman Act. 341 U.S. at 597-98. Accordingly, these decisions are not apposite here.

Petitioner 47th Street Photo is more candid in conceding that any restraint resulting from gray market restrictions is not horizontal, yet is equally as mistaken as K mart in arguing that such restraints violate the antitrust laws. Its assertion that manufacturers are not permitted to establish exclusive selling territories unless consumers benefit, Brief of 47th Street Photo at 43, is inaccurate and, in any event, does not establish that gray market restrictions are unlawful. The case law cited by 47th Street Photo reveals that the relevant inquiry is whether any reduction in intrabrand competition resulting from gray market restraints is balanced by an increase in interbrand competition promoted by such restraints. *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977). In Duracell's case, and we believe in many others, the reduction in intrabrand competition which occurs when the gray market is restrained is more than compensated for by the increase in interbrand competition that occurs when a U.S. trademark owner like Duracell is able to advertise and promote its products without having its goodwill misappropriated and cheapened by free riding gray marketers. *See* 225 U.S.P.Q. at 831; *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. at 51-57 (vertical restraints are aimed at eliminating a "free ride" and are an efficiency justification).[12] Moreover, here Customs does not merely refuse to enforce those gray market restraints that would not result in the promotion of interbrand competition. Instead, it interprets as invalid all gray market restraints, regardless of whether the restraints are pro-competitive or anti-competitive, if the American trademark owner is "related" to the foreign manufacturer of the goods.[13]

In sum, public policy favors neither regulations that are inconsistent with their authorizing statute generally nor the "related parties" exception in the Treasury regulations specifically.

## V. THIS COURT SHOULD DETERMINE THE VALIDITY OF THE PRESENT TREASURY REGULATIONS

The government particularly attempts to make much of an alleged ongoing policy review by the Administration. It argues that this Court should not invalidate the regulations because doing so would upset the status quo that later action by the Administration or by Congress could not restore. *See* Brief of the Federal Petitioners at 44-45. Petitioners' reliance on this ongoing policy review is fatuous in two respects.

First, the concrete issue before this Court is whether the Treasury regulations interpreting section 526 are valid. The Customs Service continues to follow those regulations in permitting importations of goods that are unlawful under section 526. The government does not represent that it will change those regulations, only that it is studying the controversy. This Court must decide the issue of law on the record before it and not on conjecture.

[12] Furthermore, consumers do not benefit from the gray market's destruction of goodwill which discourages product investment particularly where, as in Duracell's case, the gray market product sells at retail for the same price that the authorized product sells. *See* 225 U.S.P.Q. at 842-44 (additional views of Vice Chairman Liebeler) (exclusion of gray market products protects trademark system which benefits public by encouraging production of goods of high and consistent quality).

[13] Finally, petitioners' reliance upon comments by the Federal Trade Commission Bureau of Competition (not the Commission itself) and isolated statements in 1971 and 1959 by Assistant Attorneys General of the Antitrust Division are not persuasive especially when viewed in light of the joint amicus brief filed by the Antitrust Division of the Department of Justice *and* the Customs Service in *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983), in which the government unequivocally argued that section 526 raised no antitrust concerns and ought to be enforced according to its express terms so that all owners of U.S. trademarks could obtain the protection conferred upon them by statute.

Second, the Administration has consistently hidden behind the facade of a policy review without any indication whatsoever that the review is even nearing fruition. More than two years ago, the President disapproved the ITC's exclusion order in Duracell's case, expressly stating that his Administration was reviewing data "with a view toward formulating a cohesive policy in this area." 50 Fed. Reg. 1,655 (January 11, 1985), *reprinted in* 225 U.S.P.Q. 862. Three years ago, the government solicited data and comments to help it assess the policy underlying the section 526 regulations. *See* 49 Fed. Reg. 21,453 (May 21, 1984). Yet despite the length of time it has had to assess the gray market, the government has done nothing. Nor does it give any indication that it is preparing to take action. The government lacks credibility when it advises this Court to refrain from resolving a present concrete dispute on the basis of hypothetical future developments.

## CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted,

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May 7, 1987

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# AMICUS CURIAE

# BRIEF

(25) (25) (24)

Nos. 86-495, 86-624 and 86-625



IN THE

# Supreme Court of the United States

OCTOBER TERM, 1986

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UNITED STATES OF AMERICA, *et al.*, K MART CORPORATION AND 47TH STREET PHOTO,
*Petitioners,*

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, CARTIER, INC., and CHARLES OF THE RITZ GROUP, LTD.,
*Respondents.*

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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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## BRIEF OF AMICUS CURIAE CETUS CORPORATION IN SUPPORT OF RESPONDENTS

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26 pp

## TABLE OF CONTENTS

## TABLE OF AUTHORITES

IN THE

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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

## BRIEF OF AMICUS CURIAE CETUS CORPORATION IN SUPPORT OF RESPONDENT

Cetus Corporation respectfully submits this brief as amicus curiae in support of respondents Cartier, Inc., Charles of the Ritz Group, Ltd., and Coalition to Preserve the Integrity of American Trademarks (COPIAT).[1]

## INTEREST OF AMICUS CURIAE

Cetus Corporation of Emeryville, California is a biotechnology company conducting pioneering efforts in the areas of both recombinant DNA and hybridoma technologies. Cetus owns American and European subsidiaries and is engaged in world-

[1] Pursuant to Rule 36.1 of this Court, consent to the filing of this brief has been granted by all parties. Their consents have been filed with the Court.

wide licensing of its intellectual property rights. United States commercial rights in these products and trademarks remain with Cetus.

Biotechnology is a relatively new field of science, offering a rich opportunity for the treatment of cancer and infectious diseases, such as AIDS. Small American companies, of which Cetus is the earliest example, have pioneered the notion of a start-up company built on the promise of the commercial application of this promising technology.

Since 1972, Cetus has devoted its resources to the commercial application of biotechnology in the development of new or improved products and processes for human and animal healthcare and for the production of food, energy and chemicals. Cetus-modified microorganisms are currently used in the commercial production of antibiotics, vitamin B12, and an animal vaccine containing components developed by Cetus through recombinant DNA technology. Cetus has produced potential therapeutic products through recombinant DNA, including the products beta-interferon and interleukin-2, which may have significant value in the treatment of certain cancers and infectious diseases, including AIDS.[2] These products are now in human clinical trials, required for Food and Drug Administration approval.

Years of research and millions of dollars are necessary to bring the promises offered by biotechnology to fruition. Recoupment of this substantial investment is vital for a small, biotechnology-devoted company to continue its discovery and development of valuable products. Yet, small biotechnology-devoted companies are unable to handle directly the marketing of their products on a world scale. They do not have the resources, either financially or in manpower, to secure the necessary regulatory approval in various countries or to enter into full-scale marketing throughout the entire world. Therefore, vital to recoupment of the research and development costs

[2] Cetus scientists were awarded the Intellectual Property Owner's Inventor of the Year Award in 1986 for their work in developing novel forms of the promising anti-cancer drug, interleukin-2, by recombinant DNA technologies.



is the ability to enter into territorial licensing of the exclusive rights in intellectual property, which have been granted on a county-by-country, or "territorial", basis. Cetus owns twenty-six United States trademark registrations, sixty-seven foreign trademark registrations, eleven pending United States trademark applications, and eighty pending foreign trademark applications.

Based upon the territorial principle of intellectual property rights, small companies such as Cetus can develop a world-wide, years-long plan to recoup the substantial investment made in researching and developing their products. The separate transfers of the foreign rights in its intellectual property to third parties who are equipped to handle particular foreign markets provide the American company with an immediate infusion of cash and secure it a future return on its products. At the same time, the American company is able to retain its exclusive United States rights in order to market its products in its home territory.

The economic arrangements entered into under this world-wide marketing plan include the foreign manufacture of the same goods that will be manufactured in the United States for sale under the same trademarks. Thus, it will be possible, in derogation of the U.S. rights, to purchase the goods abroad and import them into the United States. The purchase of products intended for markets outside of the United States and their importation and sale in the United States without the American intellectual property owner's consent, a transaction entitled "parallel importation" or "gray marketing", is the basis of the present controversy.

To allow parallel imports will impinge on Cetus' ability to reap the benefits of its research, its United States marketing efforts, and its developing world-wide strategy. The ensuing loss of revenue will reduce Cetus' ability to continue its pioneering efforts toward the development of life-saving biotechnology products.

Amicus has no interest in the outcome of the case other than the legal principles involved. The sole interest to Amicus is whether a United States intellectual property right, whether

patent or trademark, can be asserted against a parallel importer or gray marketeer who has obtained goods *outside* the United States under a foreign, parallel patent or trademark.

## SUMMARY OF THE ARGUMENT

The principle of territoriality, a long-standing tradition in the intellectual property law of the United States, maintains that the source of intellectual property protection arises from the law of each particular country. To secure a return on their years-long, substantial investment in the discovery and development of new products, biotechnology-devoted companies, such as Cetus Corporation, have relied upon this established principle in the development of their world-wide marketing strategy of territorial licensing. To overrule the principle will significantly diminish the fledgling biotechnology-devoted companies' ability to gain a return upon their substantial investment by the retroactive effect upon their existing licensing arrangements.

Major trading partners of the United States apply the principle of territoriality. Therefore, if this long-standing tradition is overruled in the law of the United States, American companies will not have a corresponding right to sell parallel imports abroad. The United States should not now, without any agreement or treaty with other major trading partners, unilaterally overrule this principle.

As demonstrated in the field of biotechnology, interbrand competition promotes technological advances. Parallel imports are solely intrabrand competition, which discourages interbrand competition. Sanctioning parallel importation will impede the new entrants' investment in the development of innovative products and the creation of new start-up companies such as Cetus Corporation.



## THE ARGUMENT

### I. THE ESTABLISHED PRINCIPLE OF TERRITORIALITY IN INTELLECTUAL PROPERTY RIGHTS SHOULD BE MAINTAINED

#### A. World Trade Operates on the Basis of Territoriality

The nations of the world may well be moving toward the establishment of one common market that operates across political boundaries, but they have yet to arrive at such a peaceful understanding. The difficulties under the General Agreement on Tariffs and Trade (GATT) generally, and between Japan and the United States regarding semiconductors specifically, demonstrate the underlying principle that world trade still functions through separate market places, i.e., is territorial. European countries have found that a common market works to the benefit of each individual member nation, but does so to the exclusion of non-member countries. With regard to the rest of the world, the European Common Market operates as a separate entity. Although the economies of foreign countries affect the United States economy and although trade is conducted on a world-wide scale by American companies, the market in the United States is separate from the markets of foreign nations.

The territorial division existing in the world marketplace is supported by legal principles. Rights acquired under the law of one nation do not transfer to another nation. A non-U.S. patent has no effect in the United States. Likewise, a non-U.S. trademark is unenforcible in the United States, unless rights in that designation of origin have been acquired under the law of this country. This principle of territoriality in intellectual property rights maintains that the source of intellectual property protection arises from the law of each particular country. Under this principle, a trademark acquired under the law of the United States is, in law, a *different* mark from the identical trademark acquired under the law of a foreign country.

### B. The Sale of Goods Within the United States Exhausts U.S. Intellectual Property Rights, But the Sale of Goods Outside of the United States Does Not.

Within the United States, as within the Common Market,[3] the owner of an intellectual property right, whether patent or trademark, "exhausts" that right as to those goods he has voluntarily placed in commerce. *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453 (1873). Once having made a profit for goods *in this country*, he can no longer control the movement of such goods with his patent or trademark. However, a sale *outside* the United States under a parallel property right in a foreign country does not exhaust the property right in the United States. *Boesch* v. *Gräff*, 133 U.S. 697 (1890) (patents); *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689 (1923) (trademarks). "The sale of articles in the United States under a United States patent cannot be controlled by foreign laws." *Boesch* v. *Gräff*, 133 U.S. 697, 703 (1890).[4] Those who purchase from the holder of the foreign patent right do not thereby acquire a right to sell the product in the United States in defiance of the U.S. patent holder's rights. Rather, they acquire rights only under the foreign law. No U.S. rights have been transferred in the sale of that article.

Likewise, a trademark right is a valuable property right, "intellectual" in nature, that should be protected by the same principle. As Justice Holmes explained in *Katzel*, 260 U.S. at 692, citing *Boesch*, "[i]t deals with a delicate matter that may be of great value but that easily is destroyed, and therefore should be protected with corresponding care." Ownership of trademarked goods does not necessarily include the right to sell the goods anywhere; rather, only the United States trademark owner has a right to sell the goods in the United States. *Id.* Again, the sale of a trademarked article outside of the United States is an exercise of foreign rights. No rights acquired under the law of the United States have been exercised. Only the U.S. owner has acquired rights in the trademark in the United States. The licensing of a trademark to a subsidiary or an unrelated third party under the law of a foreign country, as with the sale of the trademark and the goodwill attached thereto, is an exercise of the foreign rights in that trademark. Where the United States trademark rights are not licensed or otherwise transferred, only the owner of the United States trademark has a right to sell goods under that trademark in the United States.[5]

[3] *Centrafarm BV* v. *Sterling Drug Co. Inc.* (15/74), [1974] E.C.R. 1147, [1974] 2 C.M.L.R. 480 (Eur. Ct. Jus. 1974), limited to trade *within* the European Economic Community in *E.M.I. Records Ltd.* v. *CBS United Kingdom Ltd.*, [1976] E.C.R. 811, [1976] 2 C.M.L.R. 235 (Eur. Ct. Jus. 1976). See discussion *infra*, at Sections I.C. and II.B.(3).

[4] In *Boesch* v. *Gräff*, parallel patents existed in both Germany and the United States. Hecht had a right to sell patented burners under German law. Gräff, et al., obtained rights under the U.S. patent and under these rights sued Boesch, et al., who had purchased the burners in Germany, for patent infringement when they attempted to enter the U.S. market.



### C. EEC Principles Permit Member Nations to Block Parallel Importation of Goods Originating Outside the EEC

America should not now, unilaterally, abandon the principle of territoriality. There is no public policy justification for doing so. American distributors of goods under parallel patents are unable to enter the markets of the various nations of Europe, which permit blockage of such goods.

In the context of a biotechnology-based invention, the German Supreme Court specifically upheld the right of the German patentee to block American parallel imports of products into Germany under a German patent, *Re Tylosin*, Case X ZR 57/73 German Federal Supreme Court (1976). *Re Tylosin* involved maintenance of territorial patent rights in a biotechnology invention (the process for making the drug in question involved cultivation of *Streptomyces fradiae* of either of two particular strains). The European Court of Justice [6] upheld exclusion of goods from the United States under parallel

[5] The principle of territoriality in U.S. law is discussed further, *infra*, at Section III.

[6] Herein: "Eur. Ct. Jus." This "Common Market Court" in Luxembourg hears referrals of legal questions from national courts of member states, as well as appeals from decisions of the EEC Commission in Brussels.

trademarks in *E.M.I. Records Ltd.* v. *CBS United Kingdom Ltd.*, [1976] E.C.R. 811, [1976] 2 C.M.L.R. 235 (Eur. Ct. Jus. 1976).

There is no policy justification seen for conversely permitting European distributors under parallel rights to take a free ride and sell in the United States with impunity, free from the American patent or trademark. European distributors who have obtained a territorial right implicitly prohibiting sales in the United States would be given a bonus to compete in the United States, to the detriment of the exclusive holder of the parallel American right, who does not have a corresponding right in Europe.

Permitting parallel imports *within* the Common Market is based on the underlying theme that the Common Market has created a "United States of Europe". Once patented or trademark protected goods were sold *within* the Common Market, exhaustion applies. Thus, if England and Holland are viewed as a "Massachusetts" and "New York", exhaustion principles upon first sale within the EEC apply, as they do upon first sale within any of the different states in this country. *See, Centrafarm BV* v. *Sterling Drug Co. Inc.* (15/74), [1974] E.C.R. 1147, [1974] 2 C.M.L.R. 480 (Eur. Ct. Jus. 1974), limited to *intra*-EEC trade in *E.M.I. Records.* In *Centrafarm*, the European Court of Justice considered whether parallel imports across the borders of EEC countries were legal under the Articles of the Treaty of Rome despite their prohibition under the laws of member countries.[7] The court held that the prohibition of parallel imports was not permitted when goods originate from another EEC member country in view of Article 30 of the Treaty of Rome, by which the principle of the free

[7] American-based Sterling Drug sold its drug "Negram" in various countries, including Holland and Great Britain, under parallel patents and trademarks. Centrafarm, without Sterling's consent, purchased Sterling's pharmaceuticals from its licensed subsidiaries in Great Britain and sold the pharmaceuticals in Holland, achieving a substantial profit because of a great price differential in the pharmaceuticals due to varying government policies, coupled with the extremely low transportation costs. *Id.* See discussion *infra* at Section II.B.(3).



movement of goods was agreed upon by EEC member nations. Thus, only by the force of the Treaty of Rome are parallel imports permitted between these countries.

Any elimination of the territoriality principle from United States intellectual property law should only be made as part of an agreement with other nations as done within the EEC.[8] Unilateral elimination will only benefit our foreign trade partners and injure the United States economy. Particularly, it will inhibit the growth and development of new entrants in fields requiring substantial, years-long start-up investment.

## II. TERRITORIALITY PROMOTES DEVELOPMENT OF NEW ENTRANTS IN YOUNG AREAS OF TECHNOLOGY

### A. Biotechnology Relies on Territorial Licensing To Spread Development Costs

Amicus, as a biotechnology-devoted company,[9] depends upon the territoriality of intellectual property rights to develop its products such as its interleukin-2 and other anti-cancer drugs and medicinal devices. The problems of Amicus are typical of an American biotechnology company that must spread the cost of developing a product beyond its home territory. To go through many years and tens of millions of dollars for regulatory approval of a new product, and then to obtain a return on the investment only through marketing in the United States is not enough. The costs are simply too great. New entrants in innovative fields of technology that require substantial investment before a marketable product is developed must seek financial support through the transfer of foreign rights in the product. They can afford neither to reserve the world market for themselves nor to seek recovery of their investment in solely the U.S. market, letting the foreign rights fall by the wayside.

[8] And, unlike the EEC, elimination of territoriality in intellectual property law should only be done with corresponding harmonization of other laws and policies, e.g., government pricing policies and warranties, without which windfall profits will still be derived from parallel imports.

[9] As opposed to large multinational companies where biotechnology may be only a very minor part of a company's overall business.

Governmental approval to market pharmaceuticals is very costly. Other developed countries, including West Germany and particularly Japan, have their own peculiar requirements for regulatory approval, which can equal the complexity and expense of the American regulatory proceeding. Amicus typically gives the right to seek approval (and manufacture and market) in the various foreign territories to one or more third parties. The benefits to Amicus are great. The risks of developing and marketing the product are shared. Amicus immediately receives some cash infusion or other technology that it can use in the United States. The test data on cancer patients by the foreign enterprise are conveyed back to Amicus to provide a broader base of information concerning efficacy and side effects on which the U.S. regulatory authorities may judge the application. Should the foreign enterprise be successful and commence actual marketing, the royalty income can be significant (though it would not match the income received if Amicus could market its products worldwide without the third parties). Thus, the use of territorial licensing is necessary to the operation of biotechnology-devoted companies and their continued exploration of new medical products.

### B. Abandonment of the Principle of Territoriality Would Severely Damage Biotechnology-Devoted Companies

#### 1. Parallel Imports Take a Free Ride

Parallel imports are largely price-driven in nature. The main reason parallel imports exist is to enable the importer to offer the genuine item at a price lower than it is being offered in the United States through the normal channels of distribution.

The price differences are caused largely by the dictates of the marketplace, by the specific demands of the American consumer, and, in the pharmaceutical field, by the cost of research and development and United States regulatory approval. Trademark owners must engage in advertising and other promotional activities to create and maintain the goodwill associated with their trademarks. These advertising expenses cover a vast geographic market of over 240 million people spread over 3,000 miles. The cost of advertising in the United



States, with its heavy reliance on television to reach this geographically dispersed mass market, is relatively high. Further, the United States market demands warranty protection that is often unavailable in other countries. Retailing costs for well-known trademarked items tend to be higher because of the public's demand for retailing amenities.

Currency fluctuations also provide impetus for the operation of the gray market. Where an American company manufactures the domestic goods and the foreign company manufactures the same goods under a license from the U.S. company, a strong dollar reduces, comparatively, the price of the goods overseas.

#### 2. Extra Incentive for Free Riding In the Pharmaceutical Industry

In the pharmaceutical field, in addition to the costs of research and development are the costs of regulatory approval, which can provide significant incentive for parallel importation by raising the cost of a pharmaceutical in one country, e.g., the United States, while having significantly less impact on the cost in another country. Further, the second comer can market the product in the United States at relatively little extra expense.

In the United States, the first company to seek regulatory approval of a specific product invests substantially greater amounts of time and money than any subsequent company. Whether or not the parallel imports are from the same source as the intellectual property owners' products, the expense required to market the product is significantly lower. Where the product is manufactured both overseas and in the United States, the parallel importer need only show that the product is the bioequivalent of the American manufacturer's product in order to obtain government approval to sell the pharmaceutical. This is significantly cheaper than the cost of processing the New Drug Application (NDA) or Product Licensing Application (PLA).[10] Where the drug is only manufactured overseas such that both the American intellectual property owner and the

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[10] The latter application is for approval of new products developed through biotechnology.

parallel importer derive their goods from the same source, the product is identical and, therefore, the costs to the parallel importer of entering the market with the product are de minimis.

Food and Drug law sets up the second comer as a free rider. Regardless of whether the American patent and trademark holder manufactures the drug or derives it from a separate or common source as the approved foreign seller, it will profit less because of the percentage that goes towards recoupment of its investment in developing the product and the market, and obtaining regulatory approval. Because of the reduced sales, a reduced overall profit will be realized.

### 3. The European Example: Free Riding Due to Government Pricing Policies

To envision the effects of allowing parallel importation of pharmaceuticals in the United States, one need only look back a generation to what happened in the Common Market, when the historic principles of territoriality in intellectual property were expanded from a nationwide basis to provide "exhaustion" following a first sale anywhere in the Common Market.[11]

As seen in *Centrafarm BV* v. *Sterling Drug Co. Inc.* (15/74), [1974] E.C.R. 1147, [1974] 2 C.M.L.R. 480 (Eur. Ct. Jus. 1974), the primary impetus for parallel inportation was the mandatory, very low ceiling placed on the price of the pharmaceuticals in Great Britain. This, coupled with the low transportation costs for pharmaceuticals, provided a significant profit for the parallel importer purchasing the product in Great Britain and selling it at a high price in another EEC country.

The same windfall can result from allowing parallel imports in the United States. If a licensee of Amicus sells a

[11] *See*, Wegner & Müller, *Negram: The Common Market-Wide Exhaustion of Patent Rights Through Territorial Licenses*, 57 Jour. Pat. Off. Soc'y 46 (1975). All of the implications readily apparent at that time were ultimately considered by the European Court of Justice, although a line was drawn that did not extend the "exhaustion" doctrine to parallel imports from outside the EEC. *E.M.I. Records Ltd. v. CBS United Kingdom Ltd.*, [1976] E.C.R. 811, [1976] 2 C.M.L.R. 235 (Eur. Ct. Jus. 1976).



product in Great Britain, his purchaser would, under a result contrary to *Boesch* v. *Gräff*, 133 U.S. 697 (1890) and *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689 (1923), be free to sell the drug in the United States.[12] Parallel importers will then profit greatly by virtue of the lower overseas price without having borne the expense of discovery and development of the product, regulatory approval, and goodwill in the trademark. Such a windfall clearly is undeserved, and such punishment to biotechnology companies is self-evident.

Thus, the sellers of parallel imports are expropriating the marketing and promotional activities, and, in the pharmaceutical industry, the development and regulatory approval efforts of the intellectual propety owners. In *Katzel*, Justice Holmes recognized the danger of free riding in his statement that trademark law should not only safeguard the public from deception by indicating the source of origin of a good, but should also secure the property rights of the trademark owner. *See, A. Bourjois & Co.* v. *Katzel*, 260 U.S. at 692. Thus, from the incipiency of the adoption of the territoriality principle into American law by the Supreme Court, it has always been recognized, at least implicitly, that one of the rationales is to prevent free riding. The free ride taken on the intellectual property owners' activities and expenses should not now be sanctioned by this Court.

### 4. Overruling *Boesch* and *Katzel* will have Serious Consequences By Its Retroactive Effect On Existing Marketing Strategies

Overruling the principle of territoriality established in *Boesch* v. *Gräff*, 133 U.S. 697 (1890), and *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689 (1923), would destroy the strategy American biotechnology-devoted companies employ to market their product world-wide. Yet, it is too late for biotechnology companies to rescind their agreements and change their business plans for their existing products. The territorial license agreements already executed for many products cannot be rescinded.

[12] This would be subject, of course, to compliance with United States Food and Drug Law regulations.

Many American biotechnology companies have sought out the largest and most aggressive pharmaceutical companies in Japan, Germany and other countries to share in the development work and marketing *in the foreign countries.* To protect the home American market, a fledgling biotechnology company relies upon the exclusivity of its intellectual property rights. To change the rules, now, retroactively, in midstream, would create an enormous windfall for the large foreign companies who could turn their production to the U.S. market. The American biotechnology company would be hard-pressed to continue its regulatory approval processes here at home, faced with the unexpected competition from its foreign licensees. Thus, a sudden shift by the Court to reverse *Boesch* and *Katzel* would have dramatic consequences, for Amicus and other companies similarly situated.

**C. The Principle of Territoriality Promotes New Entrants in Competition with Large Multinational Pharmaceutical Companies.**

Interbrand competitiveness promotes new ventures. Parallel imports promote *only intra*brand competition. By reduction or elimination of intrabrand competition, interbrand competition is encourged.[13] Recognizing this, anti-trust law switched from the per se illegality of vertical restraints established by *U.S.* v. *Arnold Schwinn & Co.*, 388 U.S. 365 (1967), to the Rule of Reason approach established by *Continental T.V., Inc.* v. *GTE Sylvania, Inc.*, 443 U.S. 36, 47-57 (1977). The decision and economic analysis applied in *Sylvania* is leading towards a per se legality of vertical restraints, although the opinions yet couch their decisions in terms of the Rule of Reason.[14] The same analysis leads to the conclusion that the principle of territoriality should be fully applied in intellectual property law through the complete exclusion of parallel imports.

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[13] *E.g.*, Miller, *Restricting the Gray Market in the Trademarked Goods: Per Se Legality*, 76 Trademark Rep. 363, 365 (1986) and sources cited in note 10 (hereinafter "Miller".)

[14] Miller, *supra*, at 367.



Particularly in a new field such as biotechnology, interbrand competition is vital to encourage progress in the field: trading off of another's scientific development and marketing efforts inhibits growth in the field and thereby harms the public. To allow free riding is to discourage new development. Why take the time and expense of developing a new product when one can make a profit from selling an existing product? In the pharmaceutical industry, particularly in the promising field of biotechnology, all encouragement possible should be given to development of new, more effective therapeutic and diagnostic products.

New entrants into areas such as biotechnology rely on territorial licensing and the reservation of the United States market for their own development to compete with the established multinational corporations. The larger multinationals are often able to conduct a worldwide regulatory approval and marketing program, without the need for licensees. In the pharmaceutical field, to begin marketing new products, the large, established companies simply need to add the new product to the existing list promoted by their salesmen. Their reputation and good will in other products will carry over to the new product. A young company must develop from scratch the sales force, the reputation, and the good will. To achieve this directly on a worldwide basis is cost prohibitive. To achieve this in the United States market alone necessitates additional substantial outside investment. To compete with the marketing capabilities of the multinationals, Amicus must give up the rights to market its products directly and to obtain sole benefit of the profits. Competition requires joining forces and relinquishing foreign intellectual property rights in a territorially divided licensing scheme. Eliminating the principle of territoriality from intellectual property law would discourage new entrants in innovative fields.

If territoriality is abolished, biotechnology and particularly the human therapy that is the focus of Amicus' business will will be held primarily in the hands of the few multinational pharmaceutical companies. Amicus does not wish to denigrate the efforts of such companies; rather, the bright biotechnology professor from the Stanfords and Berkeleys of the 1990's should

have a *choice* whether to take his/her new bioinvention to an established multinational or, as in the 1970's and 1980's, to go to or to create a company like Cetus Corporation and carry on the American dream.

## III. TERRITORIALITY IS AN ESTABLISHED PRINCIPLE OF UNITED STATES TRADEMARK LAW

The debate whether the United States would follow the universal principle or the territorial principle in its intellectual property laws has already been held and concluded. Territoriality won.

Prior to the Supreme Court's decision in *A. Bourjois & Co.* v. *Katzel*, 206 U.S. 689 (1923), the universal theory was the prevailing legal philosophy, as exemplified in the Second Circuit's decision in *A. Bourjois & Co.* v. *Katzel*, 275 F. 539 (1921). In *A. Bourjois & Co.* v. *Katzel*, an American company had purchased from a French manufacturer the American rights to a trademark for face powder. The American company became identified by the consumer as the source of the trademarked face powder through its extensive advertising and thorough marketing strategies uniquely directed to the American market. Subsequently, another company purchased the face powder bearing the trademark from the French manufacturer, imported it into the United States, and sold it to American consumers. The Second Circuit held that the American trademark owner had no cause of action because the goods sold were the genuine goods covered by the French trademark; thus the rights of the owner of the trademark were not infringed. *Id.*, at 543.

The Second Circuit's ruling was the culmination of a number of cases arising under Section 27 of the Trademark Act of 1905 (the predecessor to Section 42 of the Lanham Act, 15 U.S.C. § 1124) that rejected claims of American trademark owners that goods bearing genuine foreign trademarks identical to the American trademark should be excluded from import. *See*, e.g., *Fred Gretsh Mfg. Co.* v. *Schoening*, 238 F. 780 (2d Cir. 1916).

The Supreme Court's subsequent decision in *Katzel*, which reversed the Court of Appeals, and the enactment by Congress



of Section 526 of the Tariff Act of 1922 instituted the territoriality theory of trademarks as the law of the United States. The territoriality principle of trademarks has been consistently the law of the United States since the *Katzel* decision, and was reaffirmed in the enactment of Section 42 of the Lanham Act. *See, also*, 2 J. McCarthy, *Trademarks and Unfair Competition*, § 26.13 (2nd Ed. 1984).[15] The territoriality principle is also the prevailing trademark theory of law in most other industrialized countries, unless altered by agreement between groups of countries such as the EEC.

The discussion in the Supreme Court's *Katzel* opinion explains the territoriality principle. Justice Holmes, in writing for the Court, specifically analogized trademark protection to that of patented articles: "The monopoly in that case [patents] is more extensive, but we see no sufficient reason for holding that the monopoly of a trademark so far as it goes is less complete." *A. Bourjois & Co.* v. *Katzel*, 260 U.S. at 692. Justice Holmes continued,

> [i]t is said that the trademark here is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trademark of

[15] As stated in McCarthy,

> Legislative history of the 1946 Lanham Act reveals a Congressional purpose of giving trademarks the greatest national protection which the Constitution permits. HR Rep No. 219, 79th Cong 1st Sess 4 (1945); SR No. 1333, 79th Cong 2d Sess 5-6 (1946)[;] Application of Beatrice Foods Co. (1970) 57 CCPA 1302, 429 F2d 466, 166 USPQ 431. Thus, in the absence of special statutory defenses, [footnote omitted] or a defect in the registration itself, [footnote omitted] the senior user who has a Principal Registration thereafter has superior rights throughout the United States.***
>
> ***Modern decisions interpreting the Lanham Act hold that federal law affords nationwide protection to registered marks, regardless of the areas in which the registrant actually uses the mark. [footnote omitted] Although the Lanham Act does not state this principle in so many words, this is the obvious legislative intent culled from the federal Act.

*Id.*, at page 213.

> the plaintiff only in the United States and indicates in law . . . that the goods come from the plaintiff although not made by it.

*Id.* The Supreme Court in the *Katzel* decision specifically recognized that the purpose of trademark law is not only to protect the public from deception by identifying the true origin of the goods, but also is to secure the *property rights* of the trademark owner.

In this opinion, Justice Holmes was not discussing Section 526, which was not before the Court, as it did not exist when the Second Circuit made its determination. Thus, the Supreme Court's decision goes beyond the narrow confines of the proper interpretation of Section 526 and relates directly to United States trademark law as a whole.

Subsequently, the Supreme Court ruled in *A. Bourjois & Co.* v. *Aldridge,* 263 U.S. 675 (1923) (per curiam) that goods bearing genuine foreign trademarks identical to American trademarks should be excluded from the country by the Customs Service under Section 27 of the Trademark Act of 1905, which barred the entry of goods that "copy or simulate" a registered trademark.

Concerning the enactment of Section 526, the legislative history of the Act demonstrates an intent to embody the territorial principle into law and to reject the universal theory. The conference report on the Tariff Act of 1922 stated concerning Section 526:

> [a] recent decision of the circuit court of appeals [the Second Circuit in the *Katzel* case] holds that existing law does not prevent the importation of merchandise bearing the same trademark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. [Section 526] makes such importation unlawful without the consent of the owner of the American trademark.***



H. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922). By its statement that "consent of the *owner* of the *American* trademark" is required, *Id.,* Congress implicitly recognized that Section 526 embodied the territorial principle.

In the Senate debate on Section 526, Senator McCumber criticized the universality principle and declared the need to reform existing trademark law, which he criticized as

> stating that the trademark is simply to indicate the character of the goods, or the maker, so that we will know what the goods are; and the courts will not protect the individual [trademark owner].

62 Cong. Rec. 11,605 (1922).

Further, the subsequent action of Congress in enacting the Tariff Act of 1930, 19 U.S.C. § 1526, which replaced the Tariff Act of 1922, clearly shows the unreserved intent to codify the territoriality principle of trademark law into American trade law. Congress, in enacting Section 526 of the Tariff Act of 1930 with identical language from Section 526 of the Tariff Act of 1922, specifically rejected a proposed amendment to the statute which would have deleted the clause that permitted an American trademark owner to consent to the entry of goods bearing its trademark into the United States. The Senate, which passed the amendment, stated in its report,

> [w]here the laws of the United States protect the interest of a trademark holder by allowing him a monopoly in the use of the mark, it is reasonable to require, so far as practicable, that, in return, the holder of the trademark shall manufacture his goods in the United States.

S. Rep. No. 37, 71st Cong., 1st Sess. 75 (1929). This language demonstrates the congressional understanding that Section 526 was to absolutely bar the importation of goods bearing an American company's trademark without the company's consent. If this was not the understanding of Congress, the Senate amendment would have been nonsensical. The Senate clearly would not have tried to pass an amendment to change a law if it felt that the law already stated what the new amendment was to require.

Thus, the legislative history of Section 526 of the Tariff Act of 1930 clearly demonstrates that the territoriality principle of trademark law is the principle under which the United States is to operate, as found by the Supreme Court in *A. Bourjois & Co.* v. *Katzel* and *A. Bourjois and Co.* v. *Aldridge.*

Finally, it is respectfully submitted that the Customs regulations in question actually reflect what the Customs Service believes the law should be and that Customs has superimposed its will over that of the Congress and the decisions of the Supreme Court. To this extent, Customs has usurped the powers of the United States Congress and of the United States Supreme Court. The power of the Executive Branch does not include substitution of its judgment of what the law should be for what the Judicial Branch has ruled as the law and for what the Legislative Branch has enacted as law. Therefore, for this reason alone, the Customs regulations should be overturned.



## CONCLUSION

Amicus prays that this Court will uphold the historic principle of territorial rights for American patents and trademarks, confirming the right to exercise patent and trademark rights against parallel importers.

Respectfully submitted,


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May 7, 1987

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# DOCKET

No. 86-624-CFX
Status: GRANTED

Title: 47th Street Photo, Inc., Petitioner
v.
Coalition to Preserve the Integrity of American Trademarks, et al.

Docketed:
October 16, 1986

Court: United States Court of Appeals for the District of Columbia Circuit

Vide:
86-495
86-625

Counsel for petitioner: Lewin,Nathan

Counsel for respondent: Solicitor General, Steele,Robert W., Allen,William H.

| Entry | Date | Note | Proceedings and Orders |
|---|---|---|---|
| 1 | Oct 16 1986 | G | Petition for writ of certiorari filed. |
| 2 | Oct 20 1986 | | Brief of respondent United States in opposition filed. VIDED. |
| 3 | Nov 19 1986 | | DISTRIBUTED. December 5, 1986 |
| 4 | Nov 19 1986 | | Brief amicus curiae of American Free Trade Assn. filed. VIDED. |
| 5 | Nov 19 1986 | | Brief of respondents Coal. to Preserve, etc., et al. in opposition filed. VIDED. |
| 6 | Nov 27 1986 | X | Reply brief of petitioner 47th Street Photo filed. |
| 7 | Dec 8 1986 | | Petition GRANTED. The case is consolidated with 86-495 and 86-625, and a total of one hour is allotted for oral argument. |
| | | | ************************************************************** |
| 9 | Jan 8 1987 | | Order extending time to file brief of petitioner on the merits until February 21, 1987. |
| 10 | Feb 20 1987 | | Brief amicus curiae of Natl. Assn. of Showroom Merchandisers filed. VIDED. |
| 11 | Feb 20 1987 | | Brief amicus curiae of Progress Trading Co., Inc. filed. VIDED. |
| 12 | Feb 20 1987 | | Brief amicus curiae of National Mass Retailing Institute filed. VIDED. |
| 14 | Feb 20 1987 | | Brief of petitioner K mart Corporation filed. VIDED. |
| 15 | Feb 20 1987 | | Brief of petitioner 47th Street Photo filed. VIDED. |
| 17 | Feb 20 1987 | | Brief amicus curiae of Washington filed. VIDED. |
| 18 | Feb 20 1987 | | Brief amicus curiae of Consumers Union of U.S. filed. VIDED. |
| 19 | Feb 20 1987 | | Brief amicus curiae of American Free Trade Assn. filed. VIDED. |
| 20 | Feb 20 1987 | | Brief of petitioners United States, et al. filed. VIDED. |
| 16 | Feb 21 1987 | | Brief amicus curiae of Darby Dental Supply, et al. filed. VIDED. |
| 22 | Mar 6 1987 | | Application of respondents for leave to file a brief on the merits in excess of the page limitation filed |
| 23 | Mar 6 1987 | | (A-658), and order granting same by The Chief Justice on March 9, 1987. The brief may not exceed 60 pages. |
| 21 | Mar 7 1987 | G | Motion of the Solicitor General for divided argument filed. |
| 25 | Mar 12 1987 | | Order extending time to file brief of respondent on the merits until April 22, 1987. |
| 26 | Mar 23 1987 | | Motion of the Solicitor General for divided argument GRANTED. |

| Entry | Date | Note | Proceedings and Orders |
|---|---|---|---|
| 28 | Mar 31 1987 | | Order extending time to file brief of respondent on the merits until May 7, 1987. |
| 29 | May 7 1987 | | Brief of respondent United States filed. |
| 30 | May 7 1987 | | Lodgings received. (25 copies). |
| 31 | May 7 1987 | | Brief amicus curiae of United States Trademark Assn. filed. VIDED. |
| 32 | May 7 1987 | | Brief amicus curiae of Duracell, Inc. filed. VIDED. |
| 33 | May 7 1987 | | Brief amici curiae of American Cyanamid Co., et al. filed. VIDED. |
| 34 | May 7 1987 | | Brief amicus curiae of Lever Brothers filed. VIDED. |
| 35 | May 7 1987 | | Brief amicus curiae of Cetus Corporation filed. VIDED. |
| 36 | May 7 1987 | | Brief amicus curiae of American Intellectual Property Law filed. VIDED. |
| 37 | May 7 1987 | | Brief of respondents CArtier, Inc., et al. filed. VIDED. |
| 38 | May 7 1987 | | Brief amici curiae of Yamaha International Corp., et al. filed. VIDED. |
| 39 | May 7 1987 | | Brief amici curiae of Motor Vehicle Mfgrs. Assn. of the U.S. filed. VIDED. |
| 40 | Jul 2 1987 | | CIRCULATED. |
| 41 | Jul 20 1987 | | SET FOR ARGUMENT. Tuesday, October 6, 1987. This case is consolidated with Nos. 86-495 & 625. (4th case)(1 hr) |
| 42 | Aug 12 1987 | D | Motion of Yamaha International Corporation, et al. for leave to participate in oral argument as amici curiae, for divided argument and for additional time for oral argument filed. |
| 43 | Sep 21 1987 | | Motion of Yamaha International Corporation, et al. for leave to participate in oral argument as amici curiae, for divided argument and for additional time for oral argument DENIED. |
| 44 | Sep 22 1987 | X | Reply brief of petitioner K Mart Corporation filed. VIDED. |
| 45 | Sep 22 1987 | X | Reply brief of petitioners United States, et al. filed. VIDED. |
| 46 | Sep 22 1987 | X | Reply brief of petitioner 47th Street Photo filed. VIDED. |
| 47 | Oct 6 1987 | | ARGUED. |
| 48 | Mar 7 1988 | | Brennan, J., delivered the opinion of the Court, in which White, Marshall, Blackmun, and Stevens, JJ., joined. Scalia, J., filed a dissenting opinion, in which Rehnquist, C.J., and O'Connor, J., joined. Kennedy, J., took no part in the consideration or decision of the case. THE COURT OF APPEALS CONCLUSION THAT THE DISTRICT COURT HAD JURISDICTION IS AFFIRMED. THE CASE IS RESTORED TO THE CALENDAR FOR REARGUMENT ON THE MERITS. |
| 49 | Mar 10 1988 | D | Motion of Yamaha International Corporation, et al. for leave to participate in oral argument as amici curiae, for divided argument and for additional time for oral argument filed. |
| 51 | Mar 11 1988 | | SET FOR REARGUMENT, Tuesday, April 26, 1988. (2nd case). This case is consolidated with 86-495 and 86-625. 1 hour. |
| 50 | Mar 21 1988 | | Motion of Yamaha International Corporation, et al. for leave to participate in oral argument as amici curiae, |



| Entry | Date | Note | Proceedings and Orders |
|---|---|---|---|
| | | | for divided argument and for additional time for oral argument DENIED. |
| 52 | Apr 4 1988 | G | Motion of respondents for leave to file a supplemental brief on reargument filed. |
| 53 | Apr 12 1988 | D | Motion of American Free Trade Association for leave to file a supplemental brief as amicus curiae on reargument filed. |
| 54 | Apr 13 1988 | G | Motion of the Solicitor General for leave to file a supplemental brief on reargument filed. |
| 55 | Apr 13 1988 | G | Motion of petitioner K Mart Corporation for leave to file a supplemental brief on reargument filed. |
| 56 | Apr 13 1988 | G | Motion of petitioner 47th Street Photo, Inc. for leave to file a supplemental brief on reargument filed. |
| 57 | Apr 18 1988 | | Motion of respondents for leave to file a supplemental brief on reargument GRANTED. |
| 58 | Apr 18 1988 | | Motion of American Free Trade Association for leave to file a supplemental brief as amicus curiae on reargument DENIED. |
| 59 | Apr 25 1988 | | Motion of the Solicitor General for leave to file a supplemental brief on reargument GRANTED. |
| 60 | Apr 25 1988 | | Motion of petitioner K Mart Corporation for leave to file a supplemental brief on reargument GRANTED. |
| 61 | Apr 25 1988 | | Motion of petitioner 47th Street Photo, Inc. for leave to file a supplemental brief on reargument GRANTED. |
| 62 | Apr 26 1988 | | REARGUED. |

# MOTION

MOTION FILED

APR 4 1988

Nos. 86-495, 86-624 and 86-625

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1987

---

UNITED STATES OF AMERICA, *et al.*,
K MART CORPORATION and 47TH STREET PHOTO,
*Petitioners*,

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, CARTIER, INC., and CHARLES OF THE RITZ GROUP, LTD.,
*Respondents*.

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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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## MOTION OF RESPONDENTS FOR LEAVE TO FILE SUPPLEMENTAL BRIEF AND SUPPLEMENTAL BRIEF FOR RESPONDENTS ON REARGUMENT

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April 4, 1988

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IN THE

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UNITED STATES OF AMERICA, *et al.*,
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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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## MOTION OF RESPONDENTS FOR LEAVE TO FILE SUPPLEMENTAL BRIEF

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Respondents move for leave to file, in advance of the reargument of this case on the merits, the supplemental brief that accompanies this motion. The brief comments upon intervening decisions of this Court as they bear on the issue of statutory construction that the case poses and on certain of the arguments advanced in petitioners' reply briefs.

Respectfully submitted,

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April 4, 1988

## TABLE OF CONTENTS



## TABLE OF AUTHORITIES

TABLE OF AUTHORITIES—Continued



IN THE

# Supreme Court of the United States

OCTOBER TERM, 1987

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*Respondents*.

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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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## SUPPLEMENTAL BRIEF FOR RESPONDENTS ON REARGUMENT

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### INTRODUCTION AND SUMMARY

The Customs Service's interpretation of Section 526 of the Tariff Act of 1930 falls outside the *Chevron* test for deference to an agency's interpretation of its statute as that test has been applied in two opinions of this term, *ETSI Pipeline Project* v. *Missouri*, Nos. 86-939 and 86-941, decided Feb. 23, 1988, and *NLRB* v. *United Food and Commercial Workers Union*, No. 86-594, decided Dec. 14, 1987. There is no more reason in this case than there was in *Gwaltney of Smithfield* v. *Chesapeake Bay Foundation*, No. 86-473, decided Dec. 1, 1987, slip op. at

6, for disregarding the carefully considered terms of a statute, in this case Section 526, which was debated, amended on the floor and in conference, and enacted in 1922, and considered in committee, debated, and again considered in conference and reenacted in 1930. No overriding trademark principle of "first sale" or "exhaustion" justifies the Customs Service's disregard for the terms of the statute in its regulations interpreting Section 526; the record shows that the distinction the regulations draw between those exclusive United States distributors of foreign products that are entitled to the protection of Section 526 under the Customs Service regulations and those that are not is a purely formal distinction without grounding in the policy considerations urged by petitioners. Finally, the Customs Service has been both belated and inconsistent in drawing the distinction that it now draws, in contrast to the contemporaneous and consistent NLRB interpretation of its statute held entitled to judicial deference in *United Food Workers.*

## ARGUMENT

1. Two unanimous decisions of this term illustrate the application of the *Chevron*[1] test for deference to an agency's construction of a statute it administers. The Customs Service's interpretation of Section 526 of the Tariff Act of 1930 fails when the test is applied to it. It fails because congressional intent is expressed as clearly in Section 526 as it was in the provisions of the Flood Control Act of 1944 that governed the decision in *ETSI Pipeline Project* v. *Missouri*, Nos. 86-939 and 86-941, decided Feb. 23, 1988, and that clear expression is " 'the end of the matter,' " foreclosing the agency's contrary view. Slip op. at 21. And, if the Customs Service interpretation is not thought thus to fail at the outset, it still fails the test because, unlike the contemporaneous,

[1] Chevron U.S.A. Inc. v. Natural Resources Defense Council, 467 U.S. 837, 842-44 (1984).



consistent and long-standing regulations of the Labor Board at issue in *NLRB* v. *United Food and Commercial Workers Union*, No. 86-594, decided Dec. 14, 1987, slip op. at 10-12, the belated and inconsistent Customs Service regulations interpreting Section 526 do not embody a permissible, rational interpretation of the statute.

It remains true that no way has been found to rationalize the words of Section 526 with the agency's interpretation of them—short of inserting by main force words into the statute that do not belong in it (*see* Gov't Reply Br. 15 n.14). 47th Street Photo attempted a rationalization in its opening brief. It said that a trademark is not "owned," within the meaning of Section 526, by a "corporation . . . created or organized within . . . the United States" and is not registered by a person "domiciled in the United States" when the owner and registrant is a corporation affiliated with a foreign manufacturer. (47th St. Photo Br. 19-22.)

That was not persuasive even as to the foreign manufacturers and their subsidiary distributors incorporated in the United States since Congress could have written a more stringent definition of corporate citizenship (as it has in other statutes) but chose not to do so. (COPIAT Br. 21-22.) It was not even plausible as to an American manufacturer with a plant abroad, as COPIAT and amici American manufacturers pointed out. (*See id.* at 21.) 47th Street Photo therefore made a new attempt at rationalization in its reply brief. The new effort is a hopeless failure. To fit the case of the American manufacturer, 47th Street Photo urges that merchandise is not "of foreign manufacture," as required by Section 526, if it is manufactured abroad by an American company. (47th St. Photo Reply Br. 7-8.) The argument puts an unbearable strain on the statutory language. And, if that were not enough to dispose of it, one need only recall the manifested congressional understanding of Section 526 when it was repealed and reenacted in

1930. The Senate at that time debated whether to omit from the statute as originally enacted in 1922 the provision permitting merchandise of foreign manufacture bearing a trademark identical to a United States trademark to enter the country if the United States trademark owner's consent was given. It voted to delete the consent provision precisely in order to prevent United States manufacturers from building plants abroad. (COPIAT Br. 32-36.) The necessary premise of the Senate's debate and vote (and the House's rejection of the Senate's action) was that merchandise produced in American owned plants abroad was "merchandise of foreign manufacture."

The least that one can fairly expect of a party that urges legislative history as a reason for not giving statutory words their natural meaning is that the party tell us how the words can be made to convey the meaning for which it contends. Legislative history is supposed to illumine, not substitute. That minimal expectation is not satisfied by petitioners in this case.

2. A recurring theme of petitioners' briefs and reply briefs is that Section 526, as it was originally enacted in 1922, was "hastily drafted." (*E.g.*, Gov't Reply Br. 7; 47th St. Photo Reply Br. 8-10.) It was not. In *Gwaltney of Smithfield* v. *Chesapeake Bay Foundation*, No. 86-473, decided Dec. 1, 1987, the argument was made that the use of the phrase whose meaning was in issue was "a 'careless accident,' the result of a 'debatable lapse of syntactical precision.'" Slip op. at 6. The Court responded that the wording of the phrase "could not have escaped Congress' attention." *Id.* And so it is here. Nothing in the—actually quite lengthy—consideration of Section 526 justifies ignoring the terms in which the statute is cast.

Section 526 was debated in the Senate on August 19, 1922. 62 Cong. Rec. 11,602 (1922). Even by the account of Senator Moses, an opponent who characterized it as a "midnight amendment[]," it had originally been inserted into the bill more than two months earlier, before June 6, because he said it had been removed from the bill on that date. *Id.* According to Senator Sutherland, a proponent, the provisions of Section 526 had been recommended by the American Bar Association after careful consideration, and all of those provisions could be found in a report of the cognizant ABA section, *id.* at 11,603, suggesting an even longer period of gestation. After the debate on August 19, the Conference Committee made its report, which reflects further consideration of the section, nearly a month later, on September 14. H.R. Rep. No. 1223, 67th Cong., 2d Sess. 1 (1922). And that is to say nothing of the serious and prolonged consideration that Section 526 received before it was reenacted in 1930. (COPIAT Br. 32-36.)

Section 526 was amended on the Senate floor and again in conference in 1922 in response to comments offered during the Senate debate. (*Id.* at 29-31.) That is no indication of hasty drafting. It is just an illustration of the frustrating knowledge that belongs to anyone who has done any legislative drafting—that one never sees all the problems, however long a time one has to consider them.

3. A late-blooming idea of petitioners is that the Customs Service's interpretation of Section 526 accords with and may even be dictated by what the Government calls "a basic distinction that flows through all of trademark law." (Gov't Reply Br. 5; *see also* 47th St. Photo Reply Br. 13-14.) The distinction, in the Government's words, is that "a trademark owner has the right to prevent others from using his mark on *their* goods but does not have the right, merely by virtue of owning the mark, to limit the resale of his *own* goods once he has put them into commerce." The Government's principle of trade-

mark jurisprudence is derived from two decisions of this Court. (Gov't Reply Br. 5 & n.5.) These cases concerned the proper scope of a trademark owner's *remedy* for what was found explicitly in one case, *Champion Spark Plug Co.* v. *Sanders*, 331 U.S. 125, 126 (1947), and implicitly in the other, *Prestonettes, Inc.* v. *Coty*, 264 U.S. 359 (1924), to be trademark infringement resulting from the resale of goods the trademark owner put into commerce. It cannot be said on this authority that the trademark owner has *no* power to limit resale. The remedies for infringement approved by this Court, while they allowed purveyors of reconditioned spark plugs in the one case and of repackaged face powder and perfume in the other to use the original trademarks of the goods to state truthfully their source, required the purveyors, to avoid confusion and deception, to make clear that the goods were reconditioned or repackaged. 331 U.S. at 127-28 & n.3; 264 U.S. at 367, 368-69.

The Government and 47th Street Photo also rely on a page of a treatise on trademarks.[2] But at a different page in another section of the same treatise the author says that, because of the territoriality principle of trademark law and such factors as the differing nature of identically trademarked goods intended for different markets, one cannot simply "translate . . . into the international context" the domestic rule that the resale of a trademark owner's goods in their original form typically does not infringe the owner's mark.[3]

In fact, Section 526 as written comports with and furthers the two basic aims of the legal protection of trademarks: the prevention of consumer confusion and deception and the safeguarding of the trademark owner's

[2] 3A Callman, *The Law of Unfair Competition, Trademarks, and Monopolies* § 21.13, at 62 (Altman 4th ed. 1983 & Supp. 1987). (Gov't Reply Br. 5 n.5; 47th St. Photo Reply Br. 13.)

[3] *See id.* § 21.17, at 74.



investment in the goodwill of the owner's product.[4] If enforced in accordance with its terms, Section 526 would prevent consumer confusion and deception because (as a number of the amici briefs attest) gray-market goods intended for markets other than the United States are often not the same goods that United States consumers associate with the familiar trademark on them. And the sale of gray-market goods erodes the trademark owner's investment in goodwill because the gray-market seller takes a free ride on the expenditures for advertising, promotion, and pre-sale and post-sale services that produce the goodwill and promote the vigorous interbrand competition that yields for consumers an abundance of different goods at competitive prices.[5]

4. Petitioners assert that giving Section 526 its natural meaning exalts form over substance. They point out that the statute demands ownership of the protected United States trademark by a United States citizen or a United States corporation. Then they say that Congress could not have intended that the creation by a foreign producer of what they like to refer to as a United States corporate shell to own the United States trademark should make a difference in the applicability of the statute. (*E.g.*, 47th St. Photo Reply Br. 2.) The

[4] *See* H.R. Rep. No. 219, 79th Cong., 1st Sess. 2 (1945) (the House Committee report on the bill that became the Lanham Trademark Act of 1946).

[5] United States trademark owners, economists, and others testified in factual and theoretical detail to these anti-consumer effects of the gray market in *Hearings on Gray Market Imports Before the International Trade Subcomm. of the Senate Finance Comm.*, 99th Cong., 2d Sess. 29 (1986). *See id.* at 8-10, 16-23 (testimony of Robert H. Miller); 131-28 (testimony of Steven P. Kersner); 188-97 (testimony of Peter Thompson); 314-24 (statement of Christopher C. DeMuth). The hearings were held in 1986 to consider a bill, S. 2614, that essentially would have written the restrictive Customs Service regulations into Section 526. The full Senate Finance Committee rejected a similar measure on May 7, 1987, as part of its consideration of the current international trade bill.

truth is rather, on the record that was made in support of COPIAT's motion for summary judgment in the district court, that it is the Customs Service that acts on the basis of purely formal differences.

There may be some foreign producers that have mere corporate shells as their United States distributors, but they are not among the COPIAT members whose officials gave statements in support of the motion for summary judgment.[6] For example, the Michelin Tire Corporation, a New York corporation affiliated with the French tire company, operates five plants in the United States, and most of the tires it distributes in this country are manufactured in these and other North American plants.[7]

Moreover, two COPIAT members have fallen victim, in an especially vivid way, to the Customs Service's regard for the form of corporate relationships. E. Leitz, Inc., a Delaware corporation and the owner of the United States trademark for Leica cameras and binoculars, and Nikon, Inc., a New York corporation and the owner of the United States trademark for Nikon cameras, are both substantial concerns, with forces of salespeople and technicians, service centers, and large inventories. Before 1981 Leitz was owned by United States citizens and was the exclusive distributor for Leica products in the United States. Similarly, before 1981 Nikon was publicly owned and was the exclusive distributor of Nikon goods in the United States. Both were protected by the Customs Service pursuant to Section 526 against the unconsented importation of goods bearing their trademarks. In 1981 Leitz was acquired by the German manufacturer of Leica cameras and binoculars and Nikon by the Japanese manufacturer of Nikon photographic goods. There was no change in the way either did business.

[6] These statements made under penalty of perjury are described in our main brief, p. 3 n.2.

[7] Statement of Pierre Valentin ¶¶ 2, 3.



ness. But each immediately began to suffer the inroads of gray-market products bearing its trademark because, under the Customs Service regulations, the formal change in corporate relationships made it ineligible for the protection afforded by Section 526.[8]

There is no good policy reason for this difference in treatment based on the formalities of corporate relationships. The role of Leitz and Nikon in the "preferred distribution arrangements" of "multinational enterprise[s]" (*cf.* Gov't Reply Br. 1-2) did not change when their ownership changed. And if, as the private petitioners proclaim, intrabrand competition is desirable as a means of lowering prices to consumers, it is just as desirable against an exclusive distributor that is independently owned as it is against one that is a subsidiary. Furthermore, if, as those petitioners suggest, there is some antitrust problem with an exclusive distributor that is a subsidiary, surely that problem is of greater magnitude if the exclusive distributor is an independent party to the exclusive dealing arrangement, and there is the antitrust element of agreement. *Cf. Copperweld Corp.* v. *Independence Tube Corp.*, 467 U.S. 752 (1984).

In fact, COPIAT believes that there is no antitrust problem regardless of the relationship of the parties to the exclusive dealing arrangement, and that this is so because such arrangements foster vigorous interbrand competition, which is the true source of consumer benefits. *Cf. Continental T.V.* v. *GTE Sylvania*, 433 U.S. 36 (1977). Our point here is that the Customs Service's restrictions on the enforcement of Section 526 do not have, even on petitioners' premises, any policy content.

5. We have described the Customs Service regulations that narrow the apparently intended scope of Section 526 as "belated" and "inconsistent." (P. 3, *supra.*) That is a factual, not an argumentative, description. The only arguable issue is how belated and how inconsistent.

[8] Statements of Aaron Altman ¶¶ 2, 3, 4, 9; Jack M. Abrams ¶¶ 2, 3, 4, 12, 13.

Regulations were issued by the Customs Service contemporaneously with the enactment of Section 526 in 1922 and its reenactment in 1930. Those regulations of 1923 and 1931, written when, presumably, Customs Service officials were most closely attuned to what Congress really intended, did not suggest that Section 526 meant less than it said. (COPIAT Br. 41-42.) They gave no hint of the restrictive regulations of 1972. Petitioners assert that the first restrictive regulation was issued in 1936, 14 years after Section 526 was first enacted. We say that regulation was an interpretation not of Section 526 but of a section of the Trademark Act.[9] Even on petitioners' view of it, the 1936 amendment to the regulations of 1931 was an incomplete forerunner of the 1972 regulations. At the most that amendment withdrew the protection of Section 526 if the foreign trademark and the United States trademark were "owned by the same person, partnership, association, or corporation." (COPIAT Br. 42.) On its face, the amended regulation did not touch the petitioners' paradigm gray-market case of a foreign producer with a distributor/subsidiary incorporated in the United States. There is a suggestion in petitioners' papers that 1936 was a primitive time when such subtleties as parent and subsidiary and common ownership or control were not understood so that the reference to the "same . . . corporation" has to be taken broadly as comprehending different but related corporations. Nonsense. This was the time of New Deal legislation such as the Public Utility Holding Company Act, which lists every conceivable kind of corporate relationship to ensure that no lawyer's manipulation of corporate forms escaped the grasp of the statute. Pub. L. No. 333 (ch. 687) §§ 2(a)(7)-(10), 49 Stat. 803, 806-08 (1935);

[9] From its wording and the citation given to support it, it appears that the 1936 amendment related only to what is now Section 42 of the Lanham Act, and Congress was informed in 1944 that the amendment was so limited. (*See* COPIAT Br. 42-44.)



*see also* Glass-Steagall Act, Pub. L. No. 66 (ch. 89) § 2(b), 48 Stat. 162 (1933).

In *NLRB* v. *United Food and Commercial Workers Union*, No. 86-594, decided Dec. 14, 1987, the Court said that, in deciding what deference is owing to an agency's interpretation of its statute, "[w]e . . . consider the consistency with which an agency interpretation has been applied and whether the interpretation was contemporaneous with the enactment of the statute being construed." Slip op. at 10 n.20. In contrast with the Customs Service regulations at issue here, in that case the NLRB had adopted its interpretation of the statute in regulations that were contemporaneous with the enactment of the Taft-Hartley Act in 1947.

After 1936, things only get worse for petitioners' attempt to make out a case of long-standing, consistent administrative interpretation. In 1953, the regulation was amended to cover ownership by a "related company" as well as by the same company, but at the same time Section 526 was unmistakably deleted from the citation of authority for the amended regulation. (COPIAT Br. 44.) And during the 1950s Section 526 was being enforced against at least some gray-market French perfume that was manufactured by a French subsidiary of the American distributor and trademark owner.[10] Furthermore, the Solicitor General represented to this Court that the Customs Service thought itself obliged to enforce Section 526 as it was written against such gray-market perfume. (COPIAT Br. 45-46.) Finally, after the "re-

[10] United States v. Guerlain, Inc., 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded*, 358 U.S. 915 (1958). One of the *Guerlain* defendants was Parfums Corday, Inc., a New York corporation and the United States distributor of perfumes made in France by Parfumerie Internationale Corday, a French corporation. The United States Corday company owned 750 of the 800 shares of the French company, and 30 more shares were owned by the individual who owned the United States company and members of his family. 155 F. Supp. at 92-93.

lated company" restriction had been deleted in 1959 (and, at the same time, Section 526 had been reintroduced as authority for the less restrictive "same company" regulation),[11] the present regulations were issued without explanation in 1972, and later repudiated in 1983 by the chief counsel of the Customs Service in an amicus brief. (COPIAT Br. 47-48.)

To understate the point, there is in the Customs Service regulations neither the contemporaneity nor the consistency that the Court found in the NLRB's regulations in the *United Food Workers* case.

## CONCLUSION

This Court's intervening decisions add weight to the argument for affirming the judgment below, and nothing in petitioners' reply briefs justifies any other decision.

Respectfully submitted,

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[11] To be sure, "related company" as defined by the Lanham Act and incorporated in the Customs Service regulations went beyond cases of parent and subsidiary and common ownership or control. *See* T.D. 53,399 (1953) (J.A. 55, 56); Trademark Act of 1946, § 45, 15 U.S.C. § 1127. But it included such cases, and there is no logic to the position that, after the reference to a "related company" was deleted, the reference to "same company" was meant to comprehend parent-subsidiary and common ownership or control.

# AMICUS CURIAE

# BRIEF

Nos. 86-495, 86-624 and 86-625

IN THE

# Supreme Court of the United States

October Term, 1987

K MART CORPORATION;
47TH STREET PHOTO, INC.;
and THE UNITED STATES OF AMERICA,
*Petitioners,*

*v.*

CARTIER, INC., CHARLES OF THE RITZ
GROUP, LTD., and COALITION TO PRESERVE
THE INTEGRITY OF AMERICAN TRADEMARKS,
*Respondents.*

**ON WRITS OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT**

# MOTION OF AMICUS CURIAE FOR LEAVE TO FILE SUPPLEMENTAL BRIEF AND SUPPLEMENTAL BRIEF OF AMICUS CURIAE IN SUPPORT OF PETITIONERS ON REARGUMENT

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IN THE

# Supreme Court of the United States

October Term, 1987

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**Nos. 86-495, 86-624 and 86-625**

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K MART CORPORATION;
47TH STREET PHOTO, INC.;
and THE UNITED STATES OF AMERICA,
*Petitioners,*

*v.*

CARTIER, INC., CHARLES OF THE RITZ
GROUP, LTD., and COALITION TO PRESERVE
THE INTEGRITY OF AMERICAN TRADEMARKS,
*Respondents.*

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**ON WRITS OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT**

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## MOTION OF AMICUS CURIAE FOR LEAVE TO FILE SUPPLEMENTAL BRIEF

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The American Free Trade Association moves for leave to file, in advance of the reargument of this case on the merits, the supplemental amicus curiae brief that accompanies this motion. The brief comments on certain of the arguments advanced in Respondents' supplemental brief of April 4, 1988, and provides additional evidence of Congressional intent. Because of the shortness of time, the American Free Trade Association has not sought consent of the parties to the filing of this supplemental amicus curiae brief. The parties had previously consented formally to the filing of amicus briefs by the American Free Trade Association in support of

the Petitions for Certiorari and in support of Petitioners on the merits.

Respectfully submitted,

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## TABLE OF CONTENTS



## TABLE OF AUTHORITIES

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86-625

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**ON WRITS OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT**

## SUPPLEMENTAL BRIEF OF AMICUS CURIAE IN SUPPORT OF PETITIONERS ON REARGUMENT

### INTRODUCTION AND SUMMARY

The American Free Trade Association respectfully submits this brief as amicus curiae in support of Petitioners. This brief supplements the Association's brief on the merits filed on February 20, 1987, which included a statement on its interest as amicus curiae and a statement of the case.[1] In the interest of brevity, these statements are not repeated here.

1. Since that amicus curiae brief was filed, the American Free Trade Association has increased its membership and now includes retailers as well as importers, distributors and wholesalers of parallel imports.

The principal purpose of this brief is to comment on certain of the arguments advanced in Respondents' supplemental brief filed on April 4, 1988, and to add a new perspective on the policy arguments already advanced.

In their supplemental brief, Respondents in effect ask the Court to allow them to set the resale price of their products in the United States after they have sold those products on the open market in other countries. In 1975, Congress faced the same policy issue in the context of domestic trade and concluded that resale price maintenance was bad for consumers. Respondents' "free rider" argument was specifically rejected. Respondents' arguments are no more valid now in the context of international trade than they were in 1975 in the context of domestic trade.

## ARGUMENT

### IN 1975 CONGRESS FACED THE KEY POLICY ISSUE INVOLVED IN THIS CASE AND CONCLUDED THAT RESALE PRICE MAINTENANCE, WHICH IS WHAT RESPONDENTS ARE SEEKING HERE, WAS NOT IN THE PUBLIC INTEREST

In their supplemental brief, Respondents are essentially asking the Court to allow them to set the resale price of their products in the United States after they have sold those products, presumably at a profit, on the open market in other countries. Respondents' policy argument for this price-fixing scheme is that competition from their own products, independently imported, "erodes the trademark owner's investment in goodwill because the gray-market seller takes a free ride on the expenditures for advertising, promotion, and pre-sale and post-sale services that produce the goodwill . . . ."[2] (Respondents' Supplemental Br. 8-9) Respondents cite for this proposition the Report of the House Committee on the bill that became the Lanham Trademark Act of 1945. (The reference itself is entirely inappropriate, since the Committee was referring to competition from similar products made by others, not from products made by the trademark holder itself.)



In 1975, Congress faced the same policy issue, in the context of domestic trade, and rejected Respondents' "free-rider" argument explicitly. Earlier in this century a number of states had enacted so-called "fair trade" statutes requiring retailers to re-sell products at minimum prices fixed by the manufacturers, and statutory exemptions from Federal antitrust laws permitted this practice. Miller-Tydings Fair Trade Amendment, August 17, 1937, ch. 690, Title VIII, 50 Stat. 693; McGuire Act, July 14, 1952, ch. 745, §2, 66 Stat. 632. Price competition with respect to these products at the retail level was precluded.

After several decades of experience with such price-fixing, Congress repealed the antitrust exemptions, thereby effectively repealing the state laws. Consumer Goods Pricing Act of 1975, Pub. L. No. 94-145, 89 Stat. 801 (1975). The reason for repeal was that resale price maintenance was bad for consumers. As Senator Brooke

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2. Contrary to Respondents' implication (Respondents' Supplemental Br. 7), only genuine products are at issue here. In most instances, parallel imports are manufactured in the same plants as the "authorized" imports, and in all cases (by the very terms of the Customs regulation at issue here) the manufacturer has placed, or authorized the placement of, its trademark on them just as it has on the "authorized" imports. Obviously, if parallel imports were not equally satisfactory to American consumers, they would not sell in such large quantities and COPIAT would not be interested in outlawing them. Even if the products were different, nothing is more deceptive and confusing to consumers than to advertise and promote one's trademark worldwide as if the products were identical and then to produce them in different forms.

stated: "Fair trade is legalized price fixing by which the owner of a brand name or trademarked article determines the price fixed by the retail merchant." 121 Cong. Rec. 38049 (1975). And Representative Heinz said,

> Rather than insuring fair trade practices, however, the fair trade laws have stifled competition, encouraged price fixing, increased costs to the consumer, and have generally denied the public the benefits of competition at the retail level.

121 Cong. Rec. 23661 (1975).

Proponents of "fair trade" resale price maintenance made the same policy argument that COPIAT makes in its Supplemental Brief about the "free ride" the parallel import seller takes on the manufacturers' "good will investment" in their trademarks. Yet, in 1975, while approving repeal of "fair trade," the House Judiciary Committee (the successor to the very committee which Respondents cite) explicitly addressed the "good will investment" argument and rejected it:

> Another justification for "fair trade" laws advanced by the manufacturers is that it protects their "good will" investment in their trademarks — namely, their advertising budgets. It is contended that the manufacturer's investment in promotion and advertising represents an asset — the "market image" of the product — which would be destroyed if the price premium which was part of that "image" could be eliminated by intrabrand price competition at the retail level.
>
> Chairman Lewis Engman of the Federal Trade Commission responded to this argument in his testimony before the Subcommittee:
>
> > 'This argument reveals the anticompetitive essence of the fair trade laws. Simply put, the argument assumes an



> > identity between cost and value and thereby begs the question of the competitive marketplace by denying the consumer the right to assign his own value to the intangible asset of trademark or image.'
>
> The Committee was of the view that manufacturers should not be able to insulate their advertising budgets from the effects of intrabrand competition in this fashion, and that the marketplace should be allowed to judge the value of a "brand image" without the restraints imposed by resale price maintenance.

H.R. Rep. No. 341, 94th Cong., 1st Sess. 5 (1975).

Respondents' arguments are no more valid now in the context of international trade than they were in 1975 in the context of domestic trade. In neither case should manufacturers be permitted to fix minimum resale prices on their products once they have sold them, presumably at a profit, on the open market. In neither case should the American consumer be deprived of the benefits of price competition.[3]

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3. United States independent importers, distributors, and retailers testified in factual and theoretical detail to the pro-consumer effects of parallel importation in *Hearings on Gray Market Imports Before the International Trade Subcomm. of the Senate Finance Comm. on S.490*, 99th Cong., 2nd Sess. (1986). *See id.* at 1-2 (statement of Senator William V. Roth, Jr.); 2-3 (statement of Senator John H. Chafee); 5-6 (statement of Senator Warren B. Rudman); 40-43 (statement of James C. Tuttle); 56-59 (statement of Stephen Kurzman); 85,93 (statement of Edward T. Borda); 116-119 (statement of Nathan Lewin). The hearings were held in 1986 to consider S.2614, a bill which in substance would have restated what amicus curiae believes Congress intended in the original enactment of Section 526. When a similar measure was offered as an amendment to the current international trade bill, H.R. 3, on May 7, 1987, a majority of the Senate Finance Committee rejected the amendment, as Respondent notes. (Respondents' Supplemental Brief, fn. 5.) However, Respondents fail to note that.

Indeed, it is the members of COPIAT themselves who have established the economic incentive for parallel imports by setting dual world prices, with higher prices for American consumers. It would be particularly anomalous as a matter of economic and public policy to allow companies which manufacture overseas to fix discriminatorily high prices on their products for resale to American consumers when the Congress has prohibited companies which manufacture in the United States from doing so.[4]

NOTES *(Continued)*

on a number of recent occasions, the Committee has explicitly stated its intent not to take any action with regard to parallel importation while the litigation challenging the Customs regulation, including this case, remains pending. *See, e.g.*, S. Rep. No. 470, 98th Cong., 2nd Sess. 7-8 (1984) (the Senate Finance Committee report on the bill authorizing appropriations for the Customs Service); S. Rep. No. 71, 100th Cong., 1st Sess. 130 (1987) and H.R. Rep. No. 40, 100th Cong., 1st Sess. 158 (1987) (the House Ways & Means and Senate Finance Committee reports on the trade bill, H.R. 3).

4. COPIAT also claims that there are consumer deception problems with parallel imports (Respondents' Supplemental Br. 6-7). The staff of the Federal Trade Commission, the principal Federal consumer protection agency, disagrees. Their recent study of parallel imports concludes that there are no warranty or consumer deception problems with parallel imports, and, if there were any, there is ample existing authority at the Federal level to redress them. *Comments of the Bureaus of Competition, Consumer Protection and Economics of the Federal Trade Commission on Gray Market Policy Options Facing the United States Customs Service* (October 17, 1986), reprinted at 133 Cong. Rec. S5525 (1987). Moreover, states such as New York have enacted laws requiring prominent disclosure to consumers as to, among other things, warranty protection which accompanies parallel imports. *See, e.g.*, General Business Law §218-aa (McKinney's Supp. 1988).



## CONCLUSION

Respondents are seeking to have the U.S. Government, through the Customs Service, now enforce in international trade a form of monopolistic price-fixing that has long been outlawed in domestic trade in this country.

Respectfully submitted,

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April 12, 1988

MOTION

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**MOTION FOR LEAVE TO FILE SUPPLEMENTAL BRIEF AND SUPPLEMENTAL BRIEF FOR THE FEDERAL PETITIONERS**

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The federal petitioners move for leave to file, in advance of the reargument of this case on the merits, the supplemental brief that accompanies this motion. The brief responds to the supplemental brief filed by respondents on April 4, 1988.

Respectfully submitted.

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*Solicitor General*

APRIL 1988

## TABLE OF AUTHORITIES

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*ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT*

## SUPPLEMENTAL BRIEF FOR THE FEDERAL PETITIONERS

The three new cases[1] that are the stated occasion for COPIAT's supplemental brief do not alter the controlling legal principles here; they simply apply familiar rules of

[1] *ETSI Pipeline Project* v. *Missouri*, No. 86-939 (Feb. 23, 1988); *NLRB* v. *United Food & Commercial Workers Union, Local 23,*

statutory construction to particular—and easily distinguishable—facts. And COPIAT's surrebuttal adds nothing of substance to its previous arguments. The question in this case remains whether the Treasury Department has reasonably interpreted Section 526, 19 U.S.C. 1526, to protect a U.S. trademark owner against importation of goods bearing its trademark that were manufactured abroad by a stranger (even if the stranger has the right to use that mark in the foreign country), but not against importation of its own (or its affiliate's or licensee's) goods into the United States after it itself has sold them into foreign commerce. As we have previously explained (U.S. Br. 10-14; U.S. Reply Br. 2-6), the Treasury Department's interpretation is consistent with the statutory language. And unlike COPIAT's construction, the Treasury interpretation is consistent with the basic principles of trademark law, Section 526's legislative history, and over half a century of regulatory practice.

1. "Trademark law, like contract law, confers private rights, which are themselves rights of exclusion. It grants the trademark owner a bundle of such rights, one of which is the right to enlist the Customs Service's aid to bar foreign-made goods bearing that trademark." *K mart Corp.* v. *Cartier, Inc.*, No. 86-495 (Mar. 7, 1988), slip op. 8 (*K mart I*). The Treasury regulation (19 C.F.R. 133.21) provides that the statutory right to enlist the Customs Service's aid extends to those cases where the trademark owner seeks to exclude infringing goods (even if they are genuine under the law of the country they come from), but *not* to situations where the trademark owner seeks to exclude goods that it itself (or its affiliate or licensee) had put

No. 86-594 (Dec. 14, 1987); *Gwaltney of Smithfield, Ltd.* v. *Chesapeake Bay Found., Inc.*, No. 86-473 (Dec. 1, 1987).



into commerce. See 19 C.F.R. 133.21(c)(1). COPIAT, by contrast, argues that Section 526 entitles the trademark owner to enlist the Customs Service's aid to bar importation both of infringing goods and of its own products after it has sold them abroad.[2]

The Treasury regulation reflects a settled principle of domestic trademark law: a trademark owner has the right to prevent others from using his mark on *their* goods but does not have the right, merely by virtue of owning the mark, to limit the resale of his *own* goods once he has put them into commerce. *Champion Spark Plug Co.* v. *Sanders*, 331 U.S. 125, 128-130 (1947); *Prestonettes, Inc.* v. *Coty*, 264 U.S. 359, 368-369 (1924); *NEC Elec.* v. *Cal Circuit Abco*, 810 F.2d 1506, 1509-1510 (9th Cir. 1987), cert. denied, No. 87-125 (Oct. 5, 1987). " 'A trade mark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of *another's product as his*. . . . When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth.' " *Champion Spark Plug Co.*, 331 U.S. at 129 (quoting Justice Holmes' opinion in *Prestonettes, Inc.*, 264 U.S. at 368) (emphasis added). For example, Ford and General Motors can prevent an unrelated upstart automobile maker from attaching their trademarks to his cars, but they have no right under trademark law to prevent one of their own customers from reselling his "second-hand Ford or Chevrolet car" (*Champion Spark Plug Co.*, 331 U.S. at 129).

[2] The paradigm case, which has been the focus of the Treasury Department's regulations since 1936 (Art. 518(b) (J.A. 27-28)), is the case where the *same* company owns both U.S. and foreign marks and is seeking to exclude its own foreign-made goods. The Treasury Department has modified its regulation over the years to embrace various "common-control" situations as well, but these modifications are simply extensions of the basic logic that applies in the "same company" case. See pp. 8-10, *infra*.

COPIAT reads *Champion Spark Plug Co.* and *Prestonettes* as "cases concern[ing] the proper scope of a trademark owner's *remedy* for what was found * * * to be a trademark infringement resulting from the resale of goods the trademark owner put into commerce" (Supp. Br. 6 (emphasis in original)). But in each case, the claim of infringement was that *modified* trademarked goods (reconditioned sparkplugs and reformulated face powder) were being sold in circumstances where they could be mistaken for the trademark owner's original product. The express premise was that the simple resale of a trademarked product, with no substantial modification, would not infringe the trademark.[3] COPIAT's suggestion (Supp. Br. 5-6) that simple resale can infringe the mark—and that the only question is one of appropriate remedy—is an extraordinary departure from both settled trademark law and the common understanding of everyone who has ever bought and later resold an item bearing a brand name. See 3A R. Callmann, *The Law of Unfair Competition, Trademarks and Monopolies* § 21.13, at 62 (L. Altman 4th ed. 1983 & Supp. 1987).[4]

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[3] See *Champion Spark Plug Co.*, 331 U.S. at 129 ("we would not suppose that one could be enjoined from selling a car whose valves had been reground and whose piston rings had been replaced unless he removed the name Ford or Chevrolet"); *Prestonettes*, 264 U.S. at 369 ("If a man bought a barrel of a certain flour, or a demijohn of Old Crow whiskey, he certainly could sell the flour in smaller packages or in former days could have sold the whiskey in bottles, and tell what it was, if he stated that he did the dividing up or the bottling."); see also *Coty* v. *Prestonettes, Inc.*, 285 F. 501, 508 (2d Cir. 1922) ("There is no doubt, of course, that the defendant, after purchasing L'Origan face powders and perfumes from the complainant, was entitled to sell them in the original packages.").

[4] COPIAT concedes (Supp. Br. 6) *Callmann*'s statement that "resale or advertising for sale of the genuine plaintiff's article in its original form, under plaintiff's trademark, affixed by plaintiff's authorization, is not trademark infringement" (3A R. Callmann, *supra*, § 21.13, at 62 (footnote omitted)). But COPIAT suggests (Supp. Br. 6) that the commentator takes a different view concerning transnational resales "at a different page" of his treatise. In fact, the commentator simply recognizes what this case demonstrates; namely that "different legal theories compete in this area" (3A R. Callmann, *supra*, § 21.17, at 75). The commentator goes on to explain that the theory that a trademark owner exhausts his rights upon sale supports the legitimacy of parallel imports "because a seller should not be able to control what he has already sold" (*id.* at 76). He further observes that the "principle of 'trade identity' suggests that the importer should always win because the ultimate source of the goods is the same, regardless of who owns the mark domestically" (*ibid.*). He also states that the "principle of 'territoriality' " would support the contrary view (*ibid.*), but as we explained in our reply brief (at 8), that principle does not go that far.



The Treasury regulation interprets Section 526's trademark protection in light of the familiar trademark principle underlying *Champion Spark Plug Co.* and *Prestonettes*. As the Commissioner of Customs explained in 1951 (J.A. 53):

> [I]f the United States trade-mark owner and the owner of the foreign rights to the same mark are one and the same person, articles produced and sold abroad by the foreign owner may be imported by anyone for the reason that the trade-mark owner has himself introduced the articles into commerce or authorized such introduction and may not unreasonably restrict the use of the product thereafter. For this purpose a foreign subsidiary or licensee of the United States trade-mark owner is considered to stand in the same shoes as such trade-mark owner.

To continue with the earlier example, General Motors can obtain the Customs Service's aid in excluding a "Chevrolet" made abroad by someone else (even if the stranger has

somehow acquired the right to use that name in the country of manufacture) but General Motors may not ask the Customs Service to bar overseas purchasers of General Motors' own Chevrolets from bringing their cars into the United States.[5] This interpretation of Section 526 does not, of course, mean that a manufacturer is powerless to control resales of its trademarked products: General Motors and Nikon are free if they wish to impose various contractual restrictions, or to put different labels on products they wish to aim at different markets. They simply are not entitled to the Customs Service's assistance in segmenting the international marketplace.

2. The context in which Section 526 was enacted also provides compelling support for the Treasury interpretation. As COPIAT concedes (Br. 24), Section 526 was Congress's response to the Second Circuit's decision in *A. Bourjois & Co.* v. *Katzel*, 275 F. 539 (1921), rev'd, 260 U.S. 689 (1923). See U.S. Br. 14-25. The Second Circuit had held that an American company that had purchased a trademark and product distribution rights from an unrelated French manufacturer could not invoke its trademark to exclude the French manufacturer's goods, reasoning (275 F. at 543) that a trademark simply demonstrates "the origin of the goods they mark" and that since the imported goods truly came from the French manufacturer, the American trademark owner could not object to them. See U.S. Br. 15-16. This Court subsequently reversed that decision, holding that the imported

[5] *Sturges* v. *Clark D. Pease, Inc.*, 48 F.2d 1035 (2d Cir. 1931), which concerned an imported automobile, did not involve the issue now before the Court. The question there was whether the term "merchandise" applies to goods imported for personal use; it does not appear from the opinion that the U.S. and foreign trademark owners were the same or related persons. See *K mart I* Tr. Oral Arg. 32, 38.



product infringed the American company's trademark because that mark "indicates in law, and, it is found, by public understanding, that the goods come from [the American company] although not made by it" (260 U.S. at 692). But before this Court acted, Congress enacted Section 526 for the specific purpose "of protecting the property rights of American citizens who have purchased trademarks from foreigners" (62 Cong. Rec. 11603 (1922) (Sen. Sutherland)).[6]

The sponsors repeatedly emphasized during the ten-minute debate on this "midnight amendment" (62 Cong. Rec. 11602 (1922)) that this was the only purpose of this section. See U.S. Br. 17-25. Section 27 of the Trademark Act of 1905, ch. 592, 33 Stat. 730, already protected the U.S. trademark owner from any "simulation" of his mark. As Judge Learned Hand explained shortly thereafter, Section 526 "was intended only to supply the casus omissus, supposed to exist in section 27" as a result of the Second Circuit's *Katzel* decision—*i.e.*, to deal with the case of goods that bear trademarks that infringe in this country but are lawful in the country of origin. *Coty, Inc.* v. *Le Blume Import Co.*, 292 F. 264, 268-269 (S.D.N.Y. 1923). There is no evidence that Congress intended, nor any reason why Congress would have wanted, to break with existing trademark principles and require the Customs Service to assist foreign or American manufacturers in keeping their own goods out of the U.S. market. See U.S. Br. 17-25; U.S. Reply Br. 9-11.

[6] In the *Katzel* case, the goods sold in this country by the U.S. trademark owner had in fact been manufactured by the same French company and sold to the U.S. trademark owner. That fact, however, has no significance: if the U.S. company, after purchasing the American trademark, had manufactured the face powder itself in this country and had sought (as in the *Katzel* case) to exclude the foreign

COPIAT has responded to the 1922 legislative debate primarily by evading it. In its previous brief, COPIAT suggested (Br. 28-29) that this Court should disbelieve the sponsors' comments on the limited scope of Section 526 because they actually had a hidden goal—one that cannot be detected from the legislative record—to achieve much broader aims. In its latest brief, COPIAT avoids the 1922 debate completely, and instead draws dubious inferences (Supp. Br. 4) from a 1929 debate concerning an amendment to Section 526 that was never enacted. The 1922 debate, which led to the enactment of the language at issue, is obviously the relevant source for determining congressional intent. And that debate indicates quite convincingly that Congress did not expect or intend that Section 526 would lead to the result that COPIAT now urges 66 years later. See U.S. Br. 17-25.

3. COPIAT's contention (Supp. Br. 9) that the Treasury Department's interpretation of Section 526 has been "inconsistent" and "belated" is both inaccurate and ironic. It is inaccurate because the Treasury Department has consistently maintained for over 50 years that a trademark owner cannot invoke Section 526 to exclude its own goods. The Treasury Department formally recognized this principle in 1936, through a regulation specifically providing that the Section 526 exclusion is not available if the foreign and U.S. trademarks "are owned by the same person, partnership, association, or corporation" (Art. 518(b) (J.A. 28)).[7] We are aware of no instance (and COPIAT has

manufacturer's powder, the Second Circuit, this Court, and Congress would all, so far as appears, have reacted exactly as they did. See *K mart I* Tr. Oral Arg. 7-8.

[7] COPIAT argues that this regulation "related only to what is now Section 42 of the Lanham Act" (Supp. Br. 10 n.9). The regulation, however, specifically cited Section 526 (J.A. 27) and the Treasury



pointed to none), prior to the 1936 regulation, where the Treasury Department acted inconsistently with that principle. And since 1936, the Treasury Department has *always* followed that principle. The question on which Treasury's approach has varied is the extent to which affiliated or related companies are to be treated as the "same person" (U.S. Reply Br. 16 n.15). This is not a simple question, and in the past half century—which has witnessed dramatic changes in international trade and business practices[8]—the Treasury Department has made four changes in its regulation to adjust its approach to the treatment of multicorporate multinational enterprises (*ibid.*). These occasional changes in the precise definition of the boundary do not support COPIAT's contention that no boundary at all may be drawn between infringing goods and the trademark owner's own goods.[9]

Department has always maintained that the regulation was meant to implement Section 526. The Treasury Department's interpretation of its own regulation in these circumstances is, of course, controlling. *United States* v. *Larionoff*, 431 U.S. 864, 872 (1977). And if there were any doubts on this score, they were eliminated in § 11.14(a) and (b) of the 1943 revision (J.A. 39), which again cites Section 526, again adverts to the problem of trademarks that are genuine in a foreign country, and again denies protection in the "same company" situation. See also § 11.14 of the 1947 revision (J.A. 45-46).

[8] See, *e.g.*, Hadari, *The Structure of the Private Multinational Enterprise*, 71 Mich. L. Rev. 729, 733-743 (1973).

[9] COPIAT's reliance (Supp. Br. 11 & n.10) on the *Guerlain* litigation (*United States* v. *Guerlain, Inc.*, 155 F. Supp. 77 (S.D.N.Y. 1957), vacated and remanded, 358 U.S. 915 (1958), dismissed, 172 F. Supp. 107 (S.D.N.Y. 1959)) continues to be misplaced. See U.S. Br. 39-40 n.48; U.S. Reply Br. 17 n.16. COPIAT cites the district court finding that Parfums Corday, Inc. (which was but one of the defendants in the case) closely controlled a French manufacturing affiliate and infers that the Customs Service must have intended to give that company the benefit of Section 526. As a customs law specialist ad-

COPIAT's characterization of the Treasury Department's interpretation as "belated" is ironic given the short history of its own interpretation. While the Treasury Department's basic interpretation has been in place for 50 years, and the very regulation at issue has been in place for 16 years, COPIAT's interpretation began with this lawsuit. Neither COPIAT nor its members participated in the 1972 rulemaking. See J.A. 75-76. Indeed, it is fair to say that COPIAT has pursued this suit precisely because it has been unable to achieve the result it seeks through legislation. U.S. Br. 5, 44-45. COPIAT's debatable and unproven policy arguments (Supp. Br. 7-9) provide no ground for jettisoning the Treasury Department's longstanding and reasonable interpretation of Section 526. This is particularly true given the substantial reliance interests that have been built upon this regulation. See U.S. Br. 4-5, 43-45; U.S. Reply Br. 18-19.[10]

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dressing *Guerlain* pointed out nineteen years ago, the Customs Service "had always denied complete exclusionary protection to an American trademark registrant when it knew the importer to be a subsidiary or parent of the foreign user of the trademark. Prior to 1953, however, the Customs Regulations were not set up to specifically elicit this kind of information." Atwood, *Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs,* 59 Trademark Rep. 301, 307 (1969). Thus, the Customs Service would not have known of Parfums Corday's affiliate if that company had registered for Section 526 protection prior to 1953, or had otherwise failed to provide the agency with that information.

[10] COPIAT's claims of hardship to its members (Supp. Br. 8-9) are difficult to take seriously. For example, COPIAT despairs (*id.* at 8) that the Customs Service regulation has "victim[ized], in an especially vivid way" two of its members, Nikon, Inc. and E. Leitz, Inc. Prior to 1981, the foreign manufacturers of Nikon and Leica cameras selected these two companies as independent U.S. distributors for their products; accordingly, these U.S. companies could invoke the Section 526 exclusion. In 1981, however, the respective foreign manufacturers acquired the companies and, in accordance with the Treasury Department regulation, the Customs Service terminated the distributors' right to the exclusion. Plainly, neither the manufacturers nor the distributors are entitled to much sympathy as a result of that consequence. The foreign manufacturers, who were certainly aware of the Treasury Department regulation, made a business decision to acquire their distributors, notwithstanding the distributors' loss of the Section 526 exemption. Furthermore, those manufacturers, who can control the worldwide distribution of their products, have ample means to protect their U.S. distributors from parallel imports—through, for example, labelling or stricter control over foreign distributors—if that were what they truly desired. Thus, if Nikon, Inc. and E. Leitz, Inc., are "victims" it is at the behest of their parents, with whom they share " 'a unity of purpose or a common design' " (*Copperweld Corp.* v. *Independence Tube Corp.*, 467 U.S. 752, 771 (1984) (citation omitted)).



4. The question here, at bottom, is whether the Treasury regulation is a "reasonable agency interpretation" of Section 526. *K mart Corp.* v. *Cartier, Inc.*, No. 86-495 (Mar. 7, 1988), slip op. 1. As we have previously explained (U.S. Br. 11-14; U.S. Reply Br. 2-4), the regulation is consistent with "plain language" principles. It applies the words of the statute quite straightforwardly to bar importation in the class of cases with which Congress was explicitly concerned but leaves unaffected a quite different class of cases that Treasury has determined, based on the legislative context, Congress did not intend to reach. This result is neither unfamiliar nor contrary to established principles of statutory construction; quite to the contrary, it focuses on what Congress meant by the words it used. This Court has frequently declined to interpret a statute as reaching every case its words might literally cover. The most recent example is *United States* v. *Wells Fargo Bank*, No. 86-1521 (Mar. 23, 1988), where the Court held that a 1937 law exempting certain project notes "from all taxation now or hereafter imposed by the United States" (42 U.S.C.

1437i(b)) did not provide an exemption from federal estate taxation. There are numerous other examples.[11]

The Treasury Department's interpretation of Section 526 is consistent with the statutory language and, unlike COPIAT's interpretation, is consistent with settled principles of trademark law and the specific—and clearly enuciated—goals of its sponsors. These factors are as much a part of the legislative context, from which a court must determine what Congress meant by the words it used, as a conflicting statute (see *K mart I* Tr. Oral Arg. 9) or the historical understandings that motivated this Court's decision in *Wells Fargo Bank*. Treasury's sensible and longstanding interpretation, which has generated far-reaching commercial expectations for a broad class of retailers and consumers, is entitled to deference from this Court.

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[11] See, *e.g.*, *United States* v. *American Trucking Ass'ns*, 310 U.S. 534, 543 (1940) (term "employees" of motor carriers, as used in Motor Carrier Act, refers only to employees in safety-related jobs and not to all employees: "even when the plain meaning did not produce absurd results but merely an unreasonable one * * * this Court has followed [the legislative] purpose rather than the literal words"); *California Federal Savings & Loan Ass'n* v. *Guerra*, No. 85- 494 (Jan. 13, 1987) (holding that a statute providing that pregnant women "shall be treated the *same* [as other persons] for all employment-related purposes" (42 U.S.C. 2000e(k) (emphasis added)) does not forbid special leave and reinstatement allowances); *O'Connor* v. *United States*, No. 85-558 (Nov. 4, 1986) (holding that a treaty exempting Panama Canal Commission employees from "*any* taxes * * * on income received as a result of their work for the Commission" (slip op. 2 (emphasis added)) does not exempt them from U.S. income taxation); other examples cited at U.S. Br. 12; U.S. Reply Br. 3. Neither these examples nor the present case requires "inserting * * * words into the statute" (COPIAT Supp. Br. 3); Treasury sought merely to give the words that are there the meaning they were intended to have. It is no more difficult to read the statutory phrase "bears a trademark" as referring, in context, to a mark not affixed by the very person that now seeks to exclude the goods, than to read any "no entry" provision as implictly excepting authorized persons.



For the foregoing reasons, and the reasons set forth in our previous briefs, the judgment of the court of appeals should be reversed.

Respectfully submitted.

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*Solicitor General*

APRIL 1988

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MOTION

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Nos. 86-495, 86-624 and 86-625

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OCTOBER TERM, 1987

K MART CORPORATION,
*Petitioner,*
v.
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47TH STREET PHOTO, INC.,
*Petitioner,*
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

UNITED STATES OF AMERICA, *et al.*,
*Petitioners,*
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

## MOTION FOR LEAVE TO FILE SUPPLEMENTAL BRIEF AND SUPPLEMENTAL BRIEF FOR PETITIONER K MART CORPORATION ON REARGUMENT


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April 13, 1988

IN THE

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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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**MOTION FOR LEAVE TO FILE SUPPLEMENTAL BRIEF**

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Petitioner K mart Corporation ("K mart") hereby moves to file, more than ten days in advance of the April 26, 1988 reargument of this case on the merits, the accompanying supplemental brief. In accordance with Rule 35.5, K mart's supplemental brief deals with late authorities, recent legislative developments, the Respondents' April 4, 1988 supplemental brief and other matters which have intervened since September 22, 1987, when K mart filed its reply brief.

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TABLE OF CONTENTS

TABLE OF AUTHORITIES





TABLE OF AUTHORITIES—Continued

## SUPPLEMENTAL BRIEF FOR PETITIONER K MART CORPORATION ON REARGUMENT

Petitioner K mart Corporation ("K mart") submits the following supplemental brief dealing with late authorities, recent legislative developments, the Respondents' April 4, 1988 supplemental brief [1] and other matters which have intervened since September 22, 1987, when K mart filed its reply brief.

### ARGUMENT

Respondents continue to argue, now based on "new" authority, that the Court should disregard both the legislative purpose behind Section 526, as expressed in its legislative history, and public policy, as expressed most particularly in the trademark and antitrust laws, in judging whether the Customs Service regulation is valid. No recent authority supports Respondents' position that this Court should overturn a regulation which Congress has repeatedly ratified and upon which American distributors, retailers and consumers have relied for some fifty years. As the Court recognized in its March 7, 1988 decision on jurisdiction, this is an issue with an immediate and substantial effect on the nation's economy. The effect will be decidedly adverse if Respondents succeed in banning parallel imports.

#### I. Recent Decisions

The cases on which Respondents newly rely do not support their position. Neither *Gwaltney of Smithfield, Ltd. v. Chesapeake Bay Foundation, Inc.*, 108 S. Ct. 376 (1987), nor *ETSI Pipeline Project v. Missouri*, 108 S. Ct. 805 (1988), deal with an agency's interpretation and enforcement of a statute or a fifty year history of agency

[1] K mart notes that much of Respondents' supplemental brief is in the nature of a reply brief devoted to repetition of the arguments in Respondents' May 7, 1987 brief, rather than a supplemental brief as contemplated by Rule 35.5.

and industry reliance on a regulation.[2] However, in both cases, the Court undertook a careful study of legislative history, as well as a reading of the bare statutory words.

Thus, in *ETSI Pipeline*, the Court turned to the original House version of the legislation to determine that the Secretary of the Interior had no power to take the challenged action. The Court noted the Secretary himself had testified against the regulatory power and urged adoption of a different statutory scheme. 108 S. Ct. at 814. Similarly in *Gwaltney*, the Court used legislative history to support its reading of the act in question. 108 S. Ct. at 383-384.

If anything, the Court's resort in *Gwaltney* and *ETSI Pipeline* to common sense and the Court's extensive examination of legislative history—the very sources Respondents urge the Court not to ignore—comport with the approach which Petitioners have advocated. Section 526 was passed to correct the perceived unjust result in *Katzel*.[3] It is silent or ambiguous on the specific issue of importations by related multinational enterprises.[4] It was

[2] Likewise, *Bethesda Hospital Ass'n v. Bowen*, 56 U.S.L.W. 4279 (U.S. Sup. Ct. April 5, 1988), did not involve a conflict between a statute and an agency regulation. In construing the statute, however, the Court consulted "the language and design of the statute as a whole," 56 U.S.L.W. at 4281, just as here an examination of *Katzel* and the trademark considerations which underlie Section 526 compels approval of the Customs Service approach to parallel imports.

[3] *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923).

[4] Respondents now contend, contrary to the evidence, that Section 526 was quite carefully drafted and the subject of "lengthy consideration." In fact, it was a "midnight amendment" the debate on which is found on a mere three pages of the Congressional Record. 62 Cong. Rec. S 11,602-11,605 (Aug. 19, 1922). Contrary to Respondents' contention that the provision was subject to "quite lengthy" consideration, its drafters never considered precisely what classes of trademark owners would be protected until the floor debate. The debate regarding the impact of Section 526 on foreign



not meant to aid foreign companies at the expense of American consumers. In fact, not even Respondents have the temerity to suggest that Congress had any such intention in 1930 or was then faced with the situation of foreign companies establishing American subsidiaries to insulate their trademarked goods from price competition.

The decision in *NLRB v. United Food & Commercial Workers Union*, 108 S. Ct. 413 (1987), supports Petitioners and is more on point. Here, the Court deferred to an agency interpretation which was, like the Customs Service regulation, "rational and consistent with the statute." 108 S. Ct. at 421. Moreover, the Court recognized that the agency had applied its statutory interpretation consistently, even though the regulation in question, like the Customs Service regulation at issue here, had been amended several times over a thirty year span.[5] 108 S. Ct. at 421 n. 20.

The Customs Service regulation meets all these criteria: (a) it is rational because it deftly melds the tariff, trademark and antitrust laws; (b) it is consistent with the statute because Congress did not purport to deal expressly with the situation of trademark ownership by related companies in a multinational enterprise; and (c) it is self-consistent because none of the Customs Service regulations on parallel imports over the past 50 years conflict with the present regulation as it was adopted in

companies is brief and very confused, as even the court of appeals below acknowledged. Hasty or not, Congress had no intention of allowing foreign companies, such as comprise the bulk of COPIAT's membership, to control the United States market by registering their trademarks with the Customs Service.

[5] Respondents repeatedly suggest that the parallel import regulation is defective because the Customs Service did not always publish lengthy justifications for it and did not cite precisely the same rationale each time it was reenacted. There is certainly no indication in *United Food* that the Court held the NLRB to such an unrealistic standard over a thirty year period.

1972.[6] Moreover, the Customs Service regulation has been ratified by Congress and is decades older than the NLRB interpretation to which the Court deferred in *United Food.*

Thus, recent decisions reemphasize the need to review the legislative history of Section 526 to determine the deference to be accorded the Customs Service regulation. When such a review is conducted, it becomes clear that Congress never intended the drastic interpretation of Section 526 which Respondents now suggest. If anything, Congress in 1922 made it clear that the statute was to protect the rights of American citizens against the perceived injustice in *Katzel.* An interpretation which would have the Customs Service enforce the inflated retail prices set by foreign multinational enterprises, to the detriment of American consumers, cannot be squared with this legislative intent.[7]

[6] Only Respondents find inconsistency in the Customs Service regulations promulgated from 1923 to 1972. While the earliest regulations merely recited the statutory language and later versions varied somewhat in their wording from decade to decade, Customs law experts and Congressional reports have found no significant inconsistency in the Customs Service recognition and enforcement of the exceptions now found in 19 C.F.R. § 133.21. H.R. Rep. No. 621, 95th Cong., 1st Sess. 27 (1977) (Customs Service consistent for at least twenty years); J. Atwood, Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs, 59 Trademark Rep. 301, 307 (1969) (Customs Service always recognized related company exception).

[7] It is certainly not necessary, as Respondents suggest, to "insert words" into Section 526 to reach such a conclusion. Since the bare statutory words do not resolve the issue of whether a foreign corporation can use its trademark to isolate the United States market from price competition, it is proper for the Court to consult legislative history and for the agency to conform its regulatory scheme to the public interest.



**II. Legislative Developments**

Although Respondents would have the Court ignore the many instances where Congress approved of the Customs Service regulations, they take great satisfaction in noting that the Senate Finance Committee declined to codify the regulation by amendment to the very controversial international trade bill now pending in Congress.[8] In fact, however, Congress has adopted neither legislation to codify the regulation[9] nor legislation to codify Respondents' position.[10] Congressional inaction on these proposals at most reflects Congressional reluctance to act on this matter while it is pending before the Court.[11]

Moreover, when the matter has reached the floor of Congress, as it did in the case of alcoholic beverages, attempts to curtail parallel imports have been defeated overwhelmingly in the interest of protecting the American consumer from gross overcharges at the hands of foreign manufacturers.[12]

**III. The Trademark Laws**

Respondents continue to ignore the trademark laws in their discussion of Section 526. This is surprising inasmuch as the courts, Congress and the Customs Service have historically regarded Section 526 as, in large part,

[8] H.R. 3, 100th Cong. 1st Sess. (1987).

[9] S. 1097, 100th Cong. 1st Sess., 133 Cong. Rec. S 5,524 (daily ed. Apr. 27, 1987).

[10] S. 1671, 100th Cong. 1st Sess., 133 Cong. Rec. S 11,893 (daily ed. Sept. 9, 1987).

[11] Congress has repeatedly stated as much. *See* S. Rep. No. 470, 98th Cong., 2d Sess. 7-8 (1984); S. Rep. No. 71, 100th Cong., 1st Sess. 130 (1987); H.R. Rep. No. 40, 100th Cong., 1st Sess. 158 (1987).

[12] 132 Cong. Rec. H 11,080-11,085 (daily ed. Oct. 15, 1986).

a trademark provision.[13] This is not surprising, however, in light of the rather uniform precedent which holds that parallel imports do not infringe trademark rights because no "copying or simulating" is involved.[14]

This was the view expressed in *NEC Electronics, Inc. v. CAL Circuit Abco, Inc.*, 810 F.2d 1506 (9th Cir. 1987), *cert. denied*, 108 S. Ct. 152 (1987), where the Ninth Circuit recognized the logic of the Customs Service regulation in the context of the Lanham Act:

> This country's trademark law does not offer NEC-Japan a vehicle for establishing a worldwide discriminatory pricing scheme simply through the expedient of setting up an American subsidiary with nominal title to its mark.

810 F.2d at 1511.

Although Respondents have again asserted that the Customs Service regulation interferes with "trademark territoriality," they offer no authority for the concept. As set forth in K mart's principal brief, neither Section 42 of the Lanham Act nor Section 526 of the Tariff Act nor the *Katzel* decision can properly be cited for supporting the concept of trademark territoriality. *See NEC Electronics*, 810 F.2d at 1510 n.4.

Finally, if Congress had intended the kind of sweeping trademark protection demanded by Respondents, it could have included such a provision in the Lanham Act—but instead, Congress ratified the Customs Service regulation in 1946. Likewise, Congress could have codified Respondents' position when it passed the Trademark Counter-

[13] When Congress passed the Lanham Act in 1946, it expressly ratified the 1936 Customs Service regulation on parallel imports. Trademarks: Hearings on H.R. 82 before a Subcommittee of the Senate Committee on Patents, 78th Cong., 2d Sess. 86 (1944).

[14] Section 42 of the Lanham Act, 15 U.S.C. § 1124.



feiting Act of 1984[15]—but instead, Congress expressly acknowledged the long-standing Customs Service policy toward parallel imports.[16]

## IV. The Antitrust Laws

Respondents continue to regard the antitrust laws as irrelevant to their anticompetitive marketing arrangements. For example, they choose to ignore K mart's oft repeated position that a trademark does not give its owner the power to restrict distribution and fix resale prices of products bearing that trademark.[17] *United States v. Sealy, Inc.*, 388 U.S. 350 (1967); *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1951); *United States v. Bausch & Lomb Optical Co.*, 321 U.S. 707, 721 (1944); *Susser v. Carvel Corp.*, 332 F.2d 505 (2d Cir. 1964), *cert. dismissed*, 381 U.S. 125 (1965); *Sunbeam Corp. v. Wentling*, 192 F.2d 7, 9 (3d Cir. 1951).

Respondents also laud the virtues of interbrand competition as "the true source of consumer benefits" and denounce the vice of "free riding." However, consumers, as they have expressed themselves to the Customs Service, Congress and this Court, do not agree that they are benefitted by the Respondents' marketing arrangements. As amici, Consumers Union and the attorneys general of several states have emphatically argued that parallel imports benefit the consumer. Likewise Consumers Union, Public Citizen and Consumer Federation of America have supported access to parallel imports in general and the

[15] Pub. L. No. 98-473, Chap. XV, 98 Stat. 2178.

[16] S. Rep. No. 526, 98th Cong., 2d Sess. 3 (1984), *reprinted in* 1984 U.S. Code Cong. & Admin. News 3627, 3629.

[17] For Respondents to characterize this as a "late-blooming idea" is false. K mart raised this point before the district court, the court of appeals and this Court. *See* K mart's petition for certiorari at p. 22 (Sept. 22, 1986); K mart's principal brief at pp. 41-42 (Feb. 21, 1987).

Customs Service regulation in particular; no consumer group has supported the COPIAT position.

Congress itself rejected the intellectual property "free riding" argument when it passed the Consumer Goods Pricing Act of 1975:

> Another justification for "fair trade" laws advanced by the manufacturers is that it protects their "good will" investment in their trademarks—namely, their advertising budgets. It is contended that the manufacturer's investment in promotion and advertising represents an asset—which would be destroyed if the price premium which was part of that "image" could be eliminated by intrabrand price competition at the retail level."
>
> * * * *
>
> The Committee was of the view that manufacturers should not be able to insulate their advertising budgets from the effects of intrabrand competition in this fashion, and that the marketplace should be allowed to judge the value of a "brand image" without the restraints imposed by resale price maintenance.

H.R. Rep. No. 341, 94th Cong., 1st Sess. 5 (1975).

The Federal Trade Commission study of parallel imports likewise found insufficient evidence of parallel imports contributing to "free rider or deception problems" and concluded that banning parallel imports would harm consumers "both in the short run and the long run." [18]

Respondents' renewed assertion that their corporate structures exempt them from antitrust liability is hardly credible. Throughout this litigation, COPIAT has revealed its membership selectively and reluctantly, understandably choosing to disclose that one atypical member has some production facilities in the United States, rather than to reveal how the vast majority of its members may be "mere shells."

[18] Comments of the Bureaus of Competition, Consumer Protection and Economics of the Federal Trade Commission on Gray Market Policy Options Facing the United States Customs Service (Oct. 17, 1986) at 15, 22.



Respondents' lack of credibility on this point is demonstrated by their contention that the American distributors of Leica and Nikon cameras "have fallen victim, in an especially vivid way" to the Customs Service regulation when they were acquired by foreign trademark owners.[19] The only "harm" they suffered is intrabrand competition from genuine Leica and Nikon cameras which their corporate parents market much more cheaply abroad—"the inroads of gray-market products" about which Respondents complain. Respondents can make no showing, however, that these multinational enterprises, taken as a whole, suffer in the least by having more of their goods sold in the United States, albeit at lower prices.

Even if Respondents profess ignorance of the antitrust implications of stifling parallel imports, Respondents' European affiliates are not so naive. On January 23, 1988, the European Community Commission fined the German and British subsidiaries of Konica (Japan) for violating the Community's competition rules by attempting to prevent the parallel importation and sale of photographic film.[20]

[19] Since these acquisitions occurred while the Customs Service regulation was in effect, the foreign parent companies must have determined that consolidating their operations would be more profitable than dealing through independent American distributors, despite competition from parallel imports.

[20] EC Commission Fines Konica Affiliates for Preventing Parallel Trade in Film, 54 Antitrust & Trade Reg. Rep. (BNA) 138 (Jan. 28, 1988).

## CONCLUSION

Respondents have not advanced any new reason for the Court to overturn the Customs Service regulation of which Congress has been apprised and on which American consumers and a substantial domestic industry have relied for over five decades.

For these reasons and those set forth in K mart's February 21, 1987 and September 22, 1987 briefs, the judgment of the court of appeals should be reversed.

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April 13, 1988

# MOTION

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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

## MOTION FOR LEAVE TO FILE SUPPLEMENTAL BRIEF AND SUPPLEMENTAL BRIEF ON REARGUMENT FOR PETITIONER 47TH STREET PHOTO, INC.

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19

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# Supreme Court of the United States

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---

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---

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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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## MOTION FOR LEAVE TO FILE SUPPLEMENTAL BRIEF ON REARGUMENT FOR PETITIONER 47TH STREET PHOTO, INC.

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Petitioner, 47th Street Photo, Inc., moves this Court for leave to file the accompanying Supplemental Brief in advance of reargument on the merits. This brief re-

sponds to respondents' Supplemental Brief filed with this Court on April 4, 1988.

Respectfully submitted,

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April 13, 1988

TABLE OF CONTENTS

## TABLE OF AUTHORITIES





## TABLE OF AUTHORITIES—Continued

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1987

---

NOS. 86-495, 86-624, 86-625

---

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**On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit**

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**SUPPLEMENTAL BRIEF ON REARGUMENT FOR PETITIONER 47TH STREET PHOTO, INC.**

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**1. *What Did Section 526 Mean in 1922?***

What was meant by a law enacted more than 65 years ago that gave an unusual "private right"[1] to bar importation of goods to "a corporation . . . created or organized within, the United States, and . . . domiciled in the United States"? COPIAT asserts that the "plain language" of that statute extended this singular "private right" even to a corporation chartered in the United States but wholly owned and totally controlled by a foreign corporation. If the law had been enacted in 1982, rather than 1922, there might be room to argue that by not explicitly excluding wholly-owned corporate subsidiaries of foreign corporations, Congress' "plain language" included them. But what is "plain" today was not "plain" 65 years ago.

At that time, layering of corporate ownership was in its infancy. In the early 1920's, this Court was still in the process of considering the legal consequences of a corporation's complete ownership of another corporation. A 1918 ruling said that if a corporation owned stock "for the purpose . . . of controlling a subsidiary company so that it may be used as a mere agency or instrumentality of the owning company or companies . . . the courts will not permit themselves to be blinded or deceived by mere forms of law, but, regardless of fictions, will deal with the substance of the transaction involved as if the corporate agency did not exist and as the justice of the case may require." *Chicago, Milwaukee, & St. Paul Ry. Co. v. Minneapolis Civic & Commerce Ass'n*, 247 U.S. 490, 501 (1918).

[1] In its decision of March 7, 1988, in this case, the Court majority characterized the authority conferred by Section 526 of the Tariff Act of 1930 (originally enacted in 1922) as "a mechanism by which a private party might, at its own option, enlist the Government's aid in restricting the quantity of imports in order to enforce a private right." *K mart Corp. v. Cartier, Inc.*, Nos. 86-495, 86-624, 86-625, slip op. at 7-8 (March 7, 1988).



Other contemporaneous decisions similarly refused to grant substantive recognition to a corporation's wholly-owned subsidiary. In *Hart Steel Co. v. Railroad Supply Co.*, 244 U.S. 294, 298 (1917), a wholly-owned corporate subsidiary was held to be "a mere sales agent" of its corporate parent.[2] And in *Gulf Oil Corp. v. Lewellyn*, 248 U.S. 71 (1918), a corporate parent and its subsidiaries were treated as "a single enterprise." Justice Holmes expressed the then-current skepticism over these legal forms, which he brushed aside as merely "bookkeeping," when he said (248 U.S. at 72):

> It is true that the petitioner and its subsidiaries were distinct beings in contemplation of law, but the facts that they were related as parts of one enterprise, all owned by the petitioner, that the debts were all enterprise debts due to members, and that the dividends represent earnings that had been made in former years and that practically had been converted into capital, unite to convince us that the transaction should be regarded as bookkeeping rather than as "dividends declared and paid in the ordinary course by a corporation."

More than two decades later, this Court repeated the proposition that "where a holding company directly intervenes in the management of its subsidiaries so as to treat them as mere departments of its own enterprise, it is responsible for the obligations of those subsidiaries in-

[2] The legislative history of Section 526 establishes, beyond any shadow of doubt, that Congress did not intend to give the statutory right of exclusion to an "agent" of a foreign trademark owner. Senator McCumber said (62 Cong. Rec. 11,605 (August 19, 1922)):

> The mere fact of a foreigner having a trade-mark and registering that trade-mark in the United States, and selling the goods in the United States through an agency, of course, would not be affected by this provision.

In light of the cited Court decisions that treat a wholly-owned corporate subsidiary as an "agent" of the parent, Senator McCumber's remark may well have been designed to govern corporate subsidiaries.

curred or arising during its management." *Consolidated Rock Prods. Co. v. Du Bois*, 312 U.S. 510, 524 (1941). This was deemed fair because "[a] holding company which assumes to treat the properties of its subsidiaries as its own cannot take the benefits of direct management without the burdens." *Id.*

Should the 1922 Congress have explicitly excluded from Section 526 the case of a foreign "holding company" that owned the stock of a corporation "created or organized within the United States?" In light of then-prevalent attitudes towards such a corporate structure, it hardly seemed necessary. In any event, the failure of Congress to advert expressly to this particular technique of appointing a local "agent" does not reflect the "plain meaning" of the law in 1922.

This Court very recently considered the historical context of a later statute than Section 526 in giving the later law an application that actually conflicted with its "plain language." Although the Housing Act of 1937 exempted certain local obligations "from all taxation now or hereafter imposed by the United States," the Court unanimously held that such obligations were not exempt from estate taxes. *United States v. Wells Fargo Bank*, No. 86-1521 (March 23, 1988). The Court relied on a distinction between direct taxes and excise taxes which was "understood" before 1937. The meaning of a relayed 1973 statute was also discerned by examining the 1937 form of income taxation—then divided into "normal" taxes and "surtaxes." Slip op. at 5. It is clear, therefore, that the contemporaneous meaning of the statutory terms affects the "plain meaning" of a law.

### 2. *Who Should Enjoy the "Private Right" Conferred by Section 526?*

Both the language and the legislative history of the law make it unquestionably clear that Congress had no desire in 1922 or in 1930 to confer the new statutory



right on *foreign* corporations. Yet the effect of COPIAT's argument is to give a foreign manufacturer the power to limit importation of its own goods if it goes to the trouble of incorporating a United States subsidiary and assigns ownership of its trademark to the subsidiary. This flies in the face of the established principle "that the interposition of a corporation will not be allowed to defeat a legislative policy, whether that was the aim or only the result of the arrangement." *Anderson v. Abbott*, 321 U.S. 349, 362-363 (1944). As this Court observed in *Anderson v. Abbott*, the concern should be "with realities not forms." *Id.* COPIAT's proposed statutory reading would elevate form over substance by encouraging assignment of foreign-owned trademarks to newly created American corporations.

COPIAT argues that its members are not only American agents controlled by foreign parent corporations, but also American principals which are foreclosed from invoking the statutory right to exclude if their goods are manufactured abroad. This is a new mask that COPIAT has belatedly donned, because the primary issue presented by this case, as described by the court below, "typically arises when a foreign producer creates an American subsidiary that then registers the American trademark." *COPIAT v. United States*, 790 F.2d 903, 904 (D.C. Cir. 1986). The foreign parent company not only retains the power to dictate the price at which goods will be sold in the United States and to choose the retailers who will be permitted to sell those goods, but it can also structure intra-company transactions to shift its profits off-shore, thereby depriving the United States of tax revenues. *See, e.g., Olympus Corp. v. United States*, 627 F. Supp. 911, 913 (E.D.N.Y. 1985), *aff'd*, 729 F.2d 315 (2d Cir. 1986), *cert. pending*, No. 86-757.

The legal issue controls, as well, multinational entities with complex corporate structures that cannot be defined as principally American. In *Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416, 418

(S.D. Fla. 1983), a district court found that the plaintiff, an "American corporation" that is also a named plaintiff in this case,

> is a cog or entity in what appears to be a single international enterprise operating through an amoeba-like structure . . . [which] either by reason of holding the Oscar de la Renta trademark or by way of license and/or contractual rights granted to it or one of its entities, holds the right to manufacture, distribute, promote, or otherwise utilize Oscar de la Renta fragrance products throughout the world.

There are, to be sure, foreign manufacturers who own corporate subsidiaries that are not mere shells. COPIAT cites Michelin Tire Corporation, that assertedly "operates five plants in the United States" where most of the tires distributed in this country are manufactured (COPIAT Supp. Br., p. 8). Tires manufactured in the United States are, of course, not subject to Section 526 at all. The law in question applies only to products manufactured outside the United States, and foreign corporations establishing production plants within the United States retain the same rights to control their own sales that American companies have.

COPIAT thinks it inequitable that Leica and Nikon products could, before 1981, be excluded under Section 526 by their independent American trademark owners but cannot now be excluded because the foreign manufacturers of those products acquired the American corporations that own the trademarks (COPIAT Supp. Br., pp. 8-9). But the acquisition of the American corporations by Leica and Nikon gave the parent foreign corporations the power to fix prices, select retailers, and allocate territories. It also gave the parent foreign companies the ability to establish artificial differences between the prices of their products in foreign markets and their prices in the United States. If COPIAT's position is sustained, the dominant foreign corporations can



now insulate their American markets from price competition in their own products from the European or Asian markets by exercising the "private right" to exclude conferred by Section 526.

Before 1981, the local distributors of Leica and Nikon products were wholly American, and it was sound policy to permit them to bar foreign-manufactured products bearing the same trademarks as theirs. The independent American distributors had expended American funds in advertising campaigns and had developed their own affiliations in the public's mind with the trademarked products. Moreover, they could independently set the prices at which their products would be sold. If the foreign manufacturers charged more than they charged to foreign distributors, presumably the independent U.S. distributors could buy abroad. For the same reasons as were stated by Justice Holmes in *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923), it was equitable to permit the independent American concerns to bar competition from identically trademarked authentic products produced abroad. A different situation was presented once the foreign manufacturer and the American distributor became, in essence, the same. After 1981, there was no reason to give the foreign parents the right to shield their American market from price competition they generated by selling the same products more cheaply elsewhere.

American corporations, such as Duracell, that choose to manufacture goods abroad through foreign corporations should also have no right to keep the products made abroad, once sold in foreign commerce, out of the United States. Congress was not intending in 1922 or 1930 to protect American manufacturers from price competition in their own goods if manufactured outside the United States. American manufacturers with foreign manufacturing affiliates are not the entities that the 1922 and 1930 Congresses sought to protect. Such manufacturers control the form and the price of the goods they choose

to sell abroad and in the United States. If they determine to charge disparate prices for the same product, they must endure the consequences of that choice—*i.e.*, intraband price competition.

### 3. *Has the Customs Service's Policy Been Long-Standing and Consistent?*

COPIAT claims that the Customs Service has been "belated" and "inconsistent" in its position on parallel imports. If there were any validity to this claim, COPIAT should be able to cite one articulation of the Customs Service's policy in 65 years in which it permitted a subsidiary of a foreign manufacturer to utilize Section 526 to exclude parallel imports. It cannot. Instead, COPIAT magnifies slight differences in basically similar regulations designed to express a consistent policy—*i.e.*, that an American trademark owner that shares common ownership with a foreign manufacturer cannot invoke Section 526.[3]

Congress has known Customs' policy throughout the period it has been in force. Congress was explicitly informed in 1944 that Customs regulations embodied such a policy when it considered and passed the Lanham Act. Congress also indicated its familiarity with the policy on subsequent occasions, and it was even discussed re-

[3] COPIAT suggests that Customs could have more explicitly described in its 1936 regulation how foreign and domestic corporations could be under common control or ownership. It argues that such corporate interrelationships were known at a time when Congress passed complex New Deal corporate regulatory statutes. COPIAT Supp. Br., p. 10. But Customs could then—as now—have rationally concluded that it could not anticipate all ways in which foreign and domestic companies may act under common control. This is amply illustrated by the assertion made by one COPIAT member to the District Court that it "has no affiliation" with its foreign manufacturer when another district court has concluded that they are both part of "a single international enterprise." *See Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416 (S.D. Fla. 1983).



cently during the Senate debate on the Prescription Drug Marketing Act of 1987, which deals with the reimportation of prescription drugs manufactured in the United States.[4]

### 4. *How Does COPIAT's Argument Affect Established Trademark Law?*

COPIAT asserts that its members' trademarks entitle them to exclusive "territorial" distribution rights in this country. If that were the law, any trademark owner—even a wholly foreign company that owned an American trademark—would have the right, apart from Section 526, to enjoin the sale of all goods bearing that trademark except for those that it imported. That is clearly not the law.

COPIAT dismisses this Court's leading trademark cases as merely dealing with "remedy." COPIAT Supp. Br., p. 5. One cannot read either *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947), or *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924), however, and fail to conclude that once a trademark owner sells his product he may not thereafter control its resale price or distribution unless there has been deception as to the origin of the goods.[5]

[4] On March 31, 1988, immediately prior to passage of the Act, Senators Chafee and Rudman expressed their uncontradicted understanding that the new law does not affect parallel imports. Senator Chafee said (134 Cong. Rec. S. 3684 (March 31, 1988)):

> I wish to clarify that this bill does not affect parallel imports or "gray market" goods . . . .
>
> The distribution of gray market goods by independent importers was [sic] long been legal in this country and in all the countries which are our major trading partners.

[5] COPIAT objects to the citation of 3A Callman, *The Law of Unfair Competition, Trademarks and Monopolies* § 21.13, at 62 (Altman, 4th ed., 1983 and Supp. 1987) in our Opening Brief, asserting that a more relevant citation (*id.* § 21.17, at 74) is omitted. The allegedly omitted entry specifically rejects the "territoriality"

Trademarks cannot be used for anti-competitive purposes and cannot be used to establish resale prices unless there is a clear showing that the economic benefits to competition outweigh the disadvantages. *Continental TV, Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977). Congress reaffirmed this policy choice when it passed the Consumer Goods Pricing Act of 1975, P.L. 94-145, 15 U.S.C. § 1, which repealed exemptions to the antitrust laws for state laws which "legalized price fixing by which the owner of a . . . trademarked article determines the price charged by the retail merchant." 117 Cong. Rec. S. 38,049 (Dec. 2, 1975).

COPIAT argues that parallel imports must be excluded under Section 526 because such goods "intended for other markets other than the United States are often not the same goods that United States consumers associate with the familiar trademark on them." COPIAT Supp. Br., p. 7. If so, the manufacturers of these dissimilar products are unlawfully abusing their trademarks, and their trademark rights are subject to forfeiture. A principal objective of the Lanham Act was to enable the public to rely on trademarks as indicators of uniform quality. Section 5 of the Lanham Act, 15 U.S.C. § 1055, was designed to insure that an American trademark registrant stand behind the uniform quality of its product. This applies not only to the products its produces, but also to products to which its "related companies" apply its mark. If it fails to maintain such "uniform

theory when the foreign and domestic trademark owners are related (*id.* at 75-76) (emphasis in original):

> The concept of territoriality is a proper one for drawing boundaries between two *different* trademark proprietors who have developed independent goodwills in separate territories; but that does not necessarily mean that its influence should be extended to a case involving goods of common origin representing only one goodwill. A trademark has more than static existence created by its registration on a national basis; it also has the dynamism generated by international use.



quality," the mark will be held to have been abandoned. *Oberlin v. Marlin American Corp.*, 596 F.2d 1322, 1327 (7th Cir. 1979). *Accord, Huntington National Mattress Co. v. Celanese Corp. of America*, 201 F. Supp. 938, 945 (D. Md. 1962).

It is difficult to sympathize with manufacturers who deliberately produce inferior products for sale in foreign markets and willfully affix to those sub-quality products the same trademark that has been associated with superior goods in the United States. If the reputation of a superior-quality product is being exploited by a manufacturer's use of the same trademark on a low-grade product, the manufacturer cannot complain if his own marketing tactics confuse consumers. His remedy is to change his own practices, not to demand that the law protect his duplicity.

**5. *Has There Been Reliance on Customs' Policy?***

Because the Customs Service has, for over fifty years, permitted parallel importation when the foreign and domestic trademark owners are the same, American purchasers of cameras, perfume, watches and other consumer goods have been paying prices for foreign-manufactured goods that are not totally out-of-line from what is charged elsewhere in the world. Many retailers sell some parallel imports and, for an entire segment of the retailing community, access to parallel imports is a significant element of their businesses. If a legal barrier to parallel importation is now erected at the border, higher prices will inevitably follow and significant changes will be wrought in an industry that has come to rely on duly promulgated regulations of long-standing.[6] 47th Street Photo, which has built its business by providing quality goods at discount prices, which invests hundreds of thousands of dollars annually in

[6] The 1972 regulations that COPIAT is challenging were issued following notice of proposed rulemaking and public comment. 35 Fed. Reg. 19,269 (1970); 37 Fed. Reg. 20,677 (1972).

advertising and promotion of these goods, and which employs hundreds of employees, will be seriously affected, as will many other similarly situated retailers and importers.

COPIAT acknowledges that its members have opposed the regulations in issue at least since 1972, but that they took no action until well over a decade later. In these circumstances, the substantial reliance interests of 47th Street Photo, of other independent retailers, and of thousands of consumers should be honored. *N.A.A.C.P. v. N.A.A.C.P. Legal Defense and Educational Fund, Inc.*, 753 F.2d 131 (D.C. Cir.), *cert. denied*, 472 U.S. 1021 (1985).

## CONCLUSION

For the foregoing reasons and those stated in our principal briefs, the judgment of the court of appeals should be reversed.

Respectfully submitted,

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